# The MAGAZINE of WALL STREET

AMERICA'S GREATEST FINANCIAL PUBLICATION

New Promotions



Bond Buyer's Guide

## Why and What to Buy

**IMPORTANT CHANGE IN THE INVESTMENT SITUATION—WHAT IT OFFERS FOR THE ALERT INVESTOR**

By the Staff of The Magazine of Wall Street

## Downward Trend of Steel Earnings

**THE WEAKNESS IN THE "RECONSTRUCTION" THEORY**

By Barnard Powers

## Money As A Fundamental Investment Factor

**ITS IMPORTANT BEARING ON SECURITY PRICES**

By Gouverneur Munro

## The Oil Situation—A Long-Range View

**WAR STATUS AND PEACE PROSPECTS**

By J. W. Smallwood

**Digest of Railroad Bill**
**Otis Elevator's Position**
**Prosperity of Eastman Kodak**
**Investing in Sugar Preferreds**
**Corn Products—Investment "Switch"**
**Why Coal is King**
**The Market Outlook**
**Mining Stocks of Merit**
**Correct Investment Methods**
**Montana Power's Development**

## How to Make Your Income Tax Return

Vol. 21 FEB. 16, 1918 No. 10

PER COPY 25¢ PER YEAR $5.

Established 1907

The MAGAZINE of WALL STREET

Vol. 21 February 16, 1918 No. 10

# THE OUTLOOK

## *Position of the Market—Bonds and the Price of Capital—The Best Measure of the Peace Prospect—Effect of Government Control*

ON the first of February the average price of fifty active railroad and industrial stocks touched 69½, which was about one point higher than the advance which temporarily culminated January 3rd after the President's announcement in favor of guaranteeing railway earnings during the war.

This represented a rally of about 12 points from the low point of 1917, which was reached December 20. It was a greater advance than was recorded at any time during the prolonged decline which started from the average price of 102 on November 18, 1916. The full swing of that decline was 44½ points. It was interrupted by two considerable rallies, one of nine points, culminating near the end of March, 1917, and another of a little less than nine points, ending near the middle of June. During the six months from the middle of June to the middle of December the greatest rally was less than six points.

It was, therefore, high time for a considerable rally on technical grounds alone. The upturn of 12 points was 27% of the decline.

### The Bond Market

IT IS interesting to compare these movements with those of high grade bonds. An average of ten railroad bonds of the best grade touched its high point at 96.7 January 18, 1917, and declined to 81.1 December 20. The best rally in all that long decline was a trifle over a point in November.

From the low point of December 20 these bonds advanced to 84.6 February 4, 1918, a rally of 3½ points, or 22% of the decline. Industrial bonds had a somewhat better recovery than the high grade rails, but on the other hand public utilities and second grade rails did not rally as well.

There were two reasons for the greater proportional rally in stocks than in bonds. One was the existence of a considerable short interest in speculative stocks at the low level of December. The other was the susceptibility of some stocks—usually designated as "specialties"—to bullish operations because of the small supply available.

### The Price of Capital

THE highest grade corporation bonds, outside the issues legal for savings banks, now yield about 6%. This in itself is of course a very high yield for securities of that class. But it is to be noted that new capital cannot be obtained on even those terms. Out of the fifteen principal offerings of new corporation securities in January, fourteen were short term notes yielding from 7% to 8%. Five of these yielded 7½% or over.

Such yields are so abnormal that it may seriously be questioned whether they do not discount the effect even of the big war demand for capital. It is not surprising that the first hopefully definite sign of peace caused a considerable rally in bond prices.

It is to be borne in mind that what might be called the circular flow of capital—from the banks to the Government, from the Government to the people in payments for materials and labor, and from the people to the banks again—will be much more smoothly in operation in 1918 than in 1917. The latter was a year of organization and preparation. Even the present winter has not yet brought the smooth working of the war industrial machine, partly because of the unusual severity of the weather. But most of the creaking and groaning of the machinery will be eliminated by spring. The circular flow of capital will be steadier, so that the Government's demands should have considerably less influence toward depressing the prices of bonds and high grade preferred stocks.

## Peace

THE real peace outlook is probably best reflected in the price of the Anglo-French 5% bonds—the joint and several obligation of the United Kingdom and France, but not protected by any collateral security. The highest price of these bonds in 1917 was 95, and from that point they fell to 81⅞ in December. From there they rallied sharply to 89⅞ and are now quoted near that figure.

This eight point advance has not been due to any actual increase in the supply of investment capital. It represents the opinion of heavy bond buyers as to the peace prospect.

## The Next Bond Issue

THE Government's plan of issuing $3,000,000,000 of Treasury certificates to the banks at the rate of about $300,000,000 weekly will permit the postponement of the next public bond offering until late April or early May, when conditions for the sale of the bonds will certainly be much more favorable than now. Bankers estimate that about $6,000,000,000 bonds will then have to be issued, upon half of which the certificates then outstanding can be applied in payment.

It is a big program of financing, but we rather expect to see it go through with less effect on the security markets than occurred in the case of the Second Liberty Loan. There are several reasons for this belief. We have already mentioned one—the smoother flow of capital. Another lies in the fact that high grade investment prices are already so low. A third is found in the beginnings of a peace prospect, and a fourth in the fact that the congestion of traffic which now ties our hands will probably be straightened out by that time.

## More and More Government Control

STILL another reason for probable good resistance of investment markets to the new loan offering is the firm support of the Government which is now being given wherever needed. No one was certain, when the Second Loan was offered, whether this support would be forthcoming. But it is now clear that Government credit will be put behind not only the railroads but also all those industries which are essential to the war.

There can be little doubt that railway rates will be advanced if necessary to provide adequate revenues, since the Government is now "holding the bag." And Government credit will be loaned to industrial corporations to the extent necessary to the forwarding of war work. The Government will do these things better as the war progresses.

## The Market Prospect

WE see no reason to change the views expressed in our last issue that an important change has occurred in the investment situation. In fact, the action of the bond market since then has confirmed our opinion. We believe it is time for the permanent investor to buy good bonds and preferred stocks, because the interest yield on capital must be at or near its highest.

As applied to common stocks, especially of the speculative class, this argument has little force. War profits are being reduced by fixed prices, heavy taxes and rising wages. And when peace comes it must bring an extensive scaling down of commodity prices and a general readjustment of industry which will administer a check to business activity.

February 11, 1918.

# Our Point of View

## On Vital Factors in Finance and Business

UNDER any sort of normal conditions the difficulty lies in selling goods. Just now it is in buying them. Usually there are plenty of goods to be had if anybody has the money to pay for them. Now almost everybody has a good supply of money and the Government is being promptly furnished with all it can spend, but the scarcity is in certain kinds of goods. We are standing around with money in our hands begging for coal, coke, iron, steel, sugar, laborers, and most of all for the transportation of all these things, without being able to find anybody to take our money and give us the goods we need.

* * *

**More Shoes, Not More Money.** Under those conditions which is it reasonable to assume that we need more of—money or goods? Goods, evidently. Yet so firmly is the idea fixed in our minds that money will do anything, that everybody is busy planning some scheme by which we can have more money or more credit.

Unless we can increase our production of goods, more money and credit will simply result in pushing still higher the prices of the goods we now have. Shoes which formerly cost $3.50 now cost $8.00, therefore let us have more money—that seems to be the line of reasoning. Yet nothing can be more obvious than that what we really need is more shoes. If we cannot increase our production of shoes, more money or credit will merely result in making the shoes cost $9.00 or $10.00. What good will that do?

* * *

**Who Shall Do the Shoveling?** What is the trouble? Just this: there are plenty of people willing to furnish the money to fight the war, but only a few who are willing to drop their customary peace business and do the work of the war—dig the coal, shovel the snow, brake the freight cars, repair the locomotives, feed the blast furnaces, plow the wheat fields. Most of us want to lend the Government money for these things and then see the Government go ahead and do them.

We have yet to learn that it is not money that will win the war, but work, and not the kind of work we like and are accustomed to, but the kind of work that is needed in war.

Confusion of authority and incompetent management (in a few instances, at least) at Washington are in part responsible for the fact that this necessary war work is proceeding at half-speed. But the real root of the matter is that everybody wants to see somebody else do the shoveling.

* * *

**Must We Have a Dictatorship?** The President has caused to be introduced into Congress a bill which would make him practically a dictator for the period of the war. It will, of course, meet much opposition. It may be an unwise move. But it is easy to see why he has taken the step.

It is because centralized authority accomplishes the quickest results. Germany has shown us that, even if we did not know it before. The Kaiser drafted his industrial army into service at practically the same moment that he mobilized his military army. He had his fighting force already trained. We have to stop to train ours. In that we are making some progress.

But our industrial army is a mob. We are trying to increase the number of workers by paying them higher wages. It is a slow process and not very effective, since the cost of living climbs with the wages.

Even with dictatorial powers, the President could not successfully draft an industrial army—for many reasons, one of which is that we are not Germans and have not the German notion of obedience. In a sense, that is the very notion we are fighting against.

But why not a volunteer industrial army? There is plenty of patriotism in this country to create such an army, if only the people realized that it is just as essential as a fighting force.

Our Liberty Loan campaigns have been splendidly successful. What we need now is a Labor Loan campaign.

* * *

**We Need a German Bomb or Two** Unfortunately, Secretary McAdoo's plan for creating a War Finance Corporation is somewhat

tinged with this delusion that all we need is "more money."

There can be no objection, in this crisis, to Government advances to banks which are lending money to persons or companies engaged in war work, or to savings banks whose bond holdings are abnormally depressed by the competition of the Government sales of war bonds. But the Secretary would permit the War Finance Corporation to issue interest-bearing notes to the amount of eight times its capital, and would authorize the Federal Reserve Banks to rediscount these notes, so that they could be used as a basis for further issues of currency.

It is difficult to see what could be gained by any further increase in the great powers of inflation of currency and credit which are already lodged in the Federal Banks. All these inflationary roads lead us around to the same steep stairway—the need of more work; the need of further utilizing the labor of women and of the idle of either sex; the need of checking production of everything not used in the war and transferring that labor power into war work; the need of cutting down our consumption of luxuries, both by legal restrictions and by personal choice; in short, the pressing, immediate, acute need that both the Government and the people shall concentrate their working capacity on the war.

Will anything wake us up short of German bombs dropped into our homes?

* * *

**Guaranteeing Everything in Sight**

In his annual report Controller of Currency Williams recommends a law to guarantee all deposits in National Banks where the amount to the credit of the individual is $5,000 or less. His argument is that this will give small depositors greater security, while it will not kill the advantage of those banks which are most honestly and efficiently run because large depositors will discriminate as heretofore.

It is a plausible plan but in view of the present strength of our National Banks and the close control over them by the Federal Reserve Board it seems hardly necessary. The burden on the Government is likely to be heavy enough, with the financing of the war, the railroads, and the new War Finance Corporation, without attempting to guarantee everything else in sight.

* * *

**A Bear Market in Gold.**

There are a thousand angles to present money conditions. For example, production of gold in this country in 1917 was 9% less than in 1916, whereas the normal condition of things is a regular annual increase in production. The reason is that it costs more to produce gold while the price of gold is always the same. We measure the prices of everything else by gold, hence gold is the only commodity whose price cannot vary.

Or to look at it from the other side, the price of gold as measured in other commodities has fallen. An ounce of gold is equal to only half as much of other things as before the war. We have had what amounts to a big bear market in gold, and as a result the production of gold has fallen off.

This condition is going to be permanent. The whole world is making its gold go farther in supporting other kinds of money than ever before. In this country, for example, the reduction of bank reserves enables one dollar of gold to carry more than seven dollars of bank deposits where it could carry five or less in 1914—and of course bank checks serve the purpose of money in the payment of bills.

But the production of gold is so small compared with the amount of it on hand that it will be a long time before the decrease in production will begin to make itself felt. Of all the "long pull" factors affecting investments, this is the longest.

* * *

**Congress Ought to Be Helpful Here.**

So far we have reason to be ashamed of "American efficiency" in the war. Henceforth every American should humbly take off his hat to any Frenchman. But we are doing some things not generally known. Our Bureau of Mines, for example, has been working with the War and Navy Departments in the study of war gases and gas masks, aided by many of the leading chemists of the country. Just what has been accomplished cannot, of course, be revealed, but it is being whispered that we shall have some surprises for the Germans in this field which may make them sorry they ever thought of the idea of using gases in war.

# What to Buy Now

## A Timely Selection of High Grade Investments

**By The Magazine of Wall Street's Editorial Staff**

IN the last issue we outlined our reasons for believing that it is now time for the investor to buy good bonds, well protected preferred stocks and some carefully selected issues of common stocks.

Our conclusion is based on the strong probability that we are now definitely headed toward peace. No one knows, of course, how long it may yet be before peace is finally arrived at. The investor, in this case as in every other, has to act on the balance of probabilities.

In the present war the labor-power of a nation is eventually the controlling factor. Labor holds the whip hand. And the uneasy stirrings of the workmen, through their unions and parties, in all European countries show their earnest desire for peace.

### The Market Does Not Wait

Investment markets always adjust prices on the basis of the balance of known probabilities. We are not referring, of course, to minor speculative fluctuations, but to the broad swing of prices. Therefore if the investor waits until he can act on a certainty, he finds that the markets have already discounted the change in conditions, in large part at any rate.

On the other hand, if the war should be prolonged beyond any period which now seems probable, the investor is at least sure of this much—that prices of high grade investment securities are now low. Even if a long war should force them somewhat lower still, the buyer at present prices has nevertheless placed his money to good advantage and can contemplate any further decline—which, from the present level, could hardly be extensive—with equanimity. The weight of heavy taxation and smaller earnings will fall upon the common stocks, not upon those bonds and preferred stocks which are amply protected under all conditions.

In this article, therefore, we are briefly reviewing the securities which we consider most attractive to the investor at this time. The factors on which our recommendations are based are as follows, in the order of their importance:

(1) Safety.
(2) Income yield.
(3) Probability of higher price.

### Government Bonds

The bonds of those governments which will be in the strongest financial position at the end of the war have the highest factor of safety, and long term bonds give a greater opportunity for price advances than short term. The bonds of our own government are also naturally favored for patriotic reasons.

U. S. LIBERTY LOAN CONVERTIBLE 4s are due in 1942, but are redeemable at par and interest Nov. 15, 1927, or on any interest date thereafter. They are exempt from all taxation except estate and inheritance taxes, income surtaxes, and excess profits and war profits taxes. Holdings up to $5,000 par value are exempt from all taxes. At the current price of a shade over 96, these bonds yield over 4¼ per cent if carried to 1942, and over 4½ per cent if redeemed in 1927. If we assume that U. S. Government credit will have returned to a 3½ per cent basis by 1922, with a prospect at that date that the bonds would be redeemed by 1932, the price of the bond would then be over 104, which would mean an 8 point profit in addition to a yield of about 4¼ per cent in the meantime. This appears to be a conservative expectation and makes the bond exceedingly attractive, especially to small investors. It is convertible into *the next* bond which may be issued at a higher rate during the present war, within six months after such bond is issued. A higher rate on the next bond issue now

**TABLE I—SELECTED SAVINGS BANK BONDS**

| | Recent Price | Approx. Yield |
|---|---|---|
| C. B. Q. Ills. Div. 3½s, 1949.. | 75½ | 5.10% |
| N. Y. Cent. 1st 3½s, 1997.... | 71½ | 4.90 |
| So. Pac. ref. 4s, 1955......... | 82½ | 5.05 |
| Union Pac. ref. 4s, 2008...... | 78½ | 5.10 |
| Lou. & Nash. unified 4s, 1940 | 87 | 4.90 |
| C. B. & Q. gen. 4s, 1958..... | 84½ | 4.90 |
| Ills. Cent. ref. 4s, 1955....... | 82½ | 5.05 |
| N. Y. Cent. ref. 4½s, 2013..... | 82 | 5.50 |

seems probable, which would mean still greater profits and higher interest yield.

U. S. Liberty Loan Convertible 3½s are due in 1947, and redeemable 1932. Exempt from all taxes except inheritance. Convertible into *any* new bond during present war issued at a higher rate, within six months from date of such issue. This permits the holder to retain this non-taxable 3½ per cent bond until the last bond issue of the war (and he has six months in which to decide whether any issue is likely to be the last), and then to convert it into such issue, which will presumably bear a rate above 4 per cent. This privilege, combined with complete tax exemption, has made the bond so attractive to investors having large incomes that it is selling at about 98¼. For the smaller investor, the 4s are more attractive.

Japanese 4½ Per Cent Sterling Loan, Second Series, bonds are due 1925. Listed on the New York, London and Berlin stock exchanges. Those that have been sold in Berlin and therefore bear the German stamp are not a good delivery in London, but they are traded in at New York and interest coupons are paid here. The bonds are secured by a second charge, after a prior lien of £22,497,400 4½s, on the Japanese Government Tobacco Monopoly, which affords ample income for the purpose. The current market at New York is about 81, but since dealings are on the basis of $5.00 to the pound sterling, this is about equivalent to 83 at the normal exchange rate of $4.87. At that price the yield is about 7½ per cent. The German stamp hurts the bonds sentimentally only, and since Japan is not suffering financially from the war these bonds are decidedly attractive.

**TABLE II—HIGH GRADE R. R. BONDS FOR PRIVATE INVESTORS**

| | Recent Price | Approx. Yield |
|---|---|---|
| C. B. & Q. Joint 4s, 1921 (Guar. by Gt. Nor. and Nor. Pac.) | 94 | 6.00% |
| Union Pac. conv. 4s, 1927 | 86½ | 5.85 |
| Colo. & So. 1st 4s, 1929 | 84 | 6.00 |
| Kan. City Sou. 1st 3s, 1950 | 60 | 5.75 |
| Atl. Coast-L. & N. col. 4s, 1952 | 73 | 5.85 |
| Lake Shore deb. 4s, 1928 | 86⅛ | 5.75 |
| Ore. Short L. ref. 4s, 1929 | 83½ | 6.00 |

There are plenty of other good government bonds, but those having the highest yields are short term securities and therefore have smaller prospects for advance in price.

An article in our Feb. 2 issue covered the subject of municipal bonds. Numerous attractive issues are available yielding 4½ per cent to 6 per cent, tax exempt.

### N. Y. State Savings Bank Bonds

Unusual yields are now obtainable on bonds legal for New York State savings banks and we list in Table I a number of these bonds which seem to us attractive. All these bonds are so strongly secured that individual comment on them is unnecessary. The private investor can get a better yield for the same safety from other classes of bonds, since the savings bank demand tends to keep the price of these bonds a little higher than if they were not in the legal class.

### Good Railroad Bonds, Not Legal for Banks

It is possible now to get nearly a 6 per cent yield from very high grade bonds of this class. Those in Table II are the bonds of roads having large earnings or are guaranteed by roads having large earnings. As with savings bank bonds, these issues are of such high grade that it seems unnecessary to discuss details in regard to each bond separately. It can hardly be possible that such yields can long be obtained from bonds of this strength, and once the opportunity is past it may never be repeated.

### High Yield Railroad Bonds

There are a number of railroad bonds now yielding around 7 per cent which are backed up by very satisfactory earnings and prospects. These require a little more detailed discussion.

Southern Pacific Convertible 4s, due 1929, are now selling at 78 to yield 6.85 per cent. These are redeemable at 105 and interest on 90 days' notice, and are convertible up to June 1, 1919, into common stock at 130. This privilege is not considered worth anything, although there is perhaps a possibility that a final decision of the government's oil land suit in favor of the company might cause a very sharp advance in the stock. The value

of these oil lands is estimated anywhere from $500,000,000 to $1,000,000,000, while the amount of common stock outstanding is $272,000,000. These bonds are not secured by mortgage, but do not need to be, in view of the fact that the company is earning about double all its interest charges.

ST. LOUIS & SAN FRANCISCO PRIOR LIEN 4s, due 1950, price 59½, yield 7.25 per cent. ($100 bonds available). Redeemable, at par and interest on 60 days' notice. A direct or collateral lien on 3,923 miles of road and on leasehold interests in 1,211 miles. (This lien, however, applies to both the $83,953,500 4s and $25,000,000 5s.) Other minor collateral security also. The fixed charges of this company were reduced about 37 per cent in reorganization and earnings in 1916 were 1¾ times fixed charges (outside income bonds.) These bonds are, in our opinion, entitled to a good investment rating.

KANSAS CITY SOUTHERN REFUNDING 5s, due 1950, price 75½, yield 7.25 per cent. Redeemable as a whole at 105 and interest on 60 days' notice. Secured on the company's entire property at the rate of $21,871 per mile subject to prior lien of $36,452 per mile. This mileage is the short route from Kansas City to the Gulf. The road is earning double all its interest charges.

CHICAGO, ROCK ISLAND & PACIFIC REFUNDING 4s, due 1934, price 67, yield 7.6 per cent. These bonds were undisturbed in the reorganization. Direct or collateral mortgage on 5,845 miles of road and 1,239 miles of leaseholds, etc. On most of this mileage the bonds are a second lien. Subject to $75,086,000 prior liens, they cover the entire property of the company. Total interest charges of the company are now being earned about 1½ times, and in view of the general position and prospects of the company we consider these bonds a good business man's investment.

**TABLE III—ATTRACTIVE GUARANTEED STOCKS FOR THE INVESTOR WHO DESIRES SAFETY OF PRINCIPAL, GOOD YIELDS AND MORE OR LESS PERMANENCY OF INVESTMENT.**

| Issue: | Price | High | Low | Yield |
|---|---|---|---|---|
| Pittsburgh, Fort Wayne & Chicago Ry. Co. original 7% stock (dividends guaranteed for 999 years by the Penn. R. R.). | 136 | 192 | 130 | 5.15% |
| Morris & Essex R. R. Co. 7¾% stock (dividends guaranteed in perpetuity by the Del. Lack & West. R. R.) | 72½ | 91 | 68 | 5.35 |
| N. Y. Lack. & Western R. R. 5% stock (dividends guaranteed in perpetuity by the Del. Lack. & Western R. R. Co.) | 98 | 140 | 95 | 5.10 |
| United N. J. R. R. & Canal Co. 10% stock (dividends guaranteed for 999 years by the Penn. R. R. Co.) | 195 | 280 | 190 | 5.13 |
| Canada Southern Ry. Co. 3% stock (dividends guaranteed for 999 years by Michigan Central R. R. Co.) | 50 | 72 | 50 | 6.00 |
| Cleveland & Pittsburgh R. R. Co. 7% stock (dividends guaranteed for 999 years by the Penn. R. R.) | 73 | 91 | 71 | 4.80 |
| Georgia R. R. & Banking Co. 12% stock (dividends guaranteed for 99 years by L. & N. R. R. Co. and Atlantic Coast Line R. R. Co.) | 240 | 270 | 230 | 5.00 |
| Illinois Central Leased Line 4% stock (dividends guaranteed for 400 years by Illinois Central R. R. Co.) | 70 | 106 | 65 | 5.71 |
| Northern Central 8% stock (dividends guaranteed for 999 years by the Penn. R. R. Co.) | 72 | 90 | 70 | 5.55 |

COLORADO & SOUTHERN REFUNDING 4½s, due 1935, price 69½, yield 7.75 per cent., ($100 bonds available.) Redeemable as whole at 101 and interest on three months' notice. Subject only to the prior lien of $19,402,000 first 4s, these are a direct obligation on the entire property of the company, and also a first lien on a considerable deposit of miscellaneous securities. The company's earnings are double all interest charges.

SOUTHERN RAILWAY DEVELOPMENT 4s, due 1956, price 60, yield 7 per cent. Subject to $133,664,000 prior liens, but adequately secured by various direct and collateral liens and deposits of bonds and stocks. Since the company is now earning double its total interest charges and is located in a growing section of the country, we consider these bonds decidedly attractive.

### Industrial and Public Utility Bonds

Most of the industrial bonds which have an active market sell relatively high in proportion to their rate of interest, because issues of these bonds are small in proportion to the property and business of the companies issuing them. This gives them a high degree of security and they now sell on a relatively low yield basis. During the last year of falling bond prices industrial bonds have held their own better than either rails or public utilities, because of the fact that most industrial companies have been doing a very profitable business, while the rails and public utilities have been handicapped by the extreme difficulty of advancing their rates. The prejudice against industrial bonds which formerly existed has practically disappeared.

**TABLE IV—SELECTION OF SOUND PUBLIC UTILITY PREFERRED STOCKS OF INVESTMENT ATTRACTIVENESS**

| | Div. Rate | Recent Asked Price | Approx. Yield |
|---|---|---|---|
| American Gas & Electric ($50 par) | 6% | 40 | 7.5% |
| American Light & Traction | 6 | 94 | 6.4 |
| American Power & Light | 6 | 75 | 8.0 |
| Cities Service | 6 | 75 | 8.0 |
| *Dayton Power & Light | 6 | 79 | 7.6 |
| Illinois Traction | 6 | 75 | 8.0 |
| Northern States Power | 7 | 89 | 7.8 |
| New York State Railways | 5 | 75 | 6.6 |
| Pacific Gas & Electric | 6 | 82 | 7.3 |
| Public Service of N. Ill. | 6 | 90 | 6.6 |
| *Ohio Cities Gas | 5¼ | 74 | 7.0 |
| Southern Calif. Edison | 7 | 97 | 7.2 |
| Tri-City Railway & Light | 6 | 85 | 7.2 |

*Listed on N. Y. Stock Exchange.

In a general way, we do not consider public utility securities the most attractive class just now. These companies are suffering from high costs of labor and materials and although some increases in rates have been granted, they are not widespread or adequate. There are, however, many exceptions. We mention a few good bonds of these classes:

Central Leather First 5s, due 1925, price 96¼, yield 5.6 per cent. This is a fairly large issue for an industrial company, $36,757,650 outstanding out of $45,000,000 authorized. A direct mortgage on the entire property of the company affords ample security, and earnings have been running from 3 to 10 times total interest charges. A gilt-edge issue.

U. S. Rubber Refunding 5s, due 1947, price 79½, yield 6.6 per cent. There were $60,000,000 of these recently put out and more may be issued up to the amount of preferred and common stock now or at any later date outstanding. At present common and preferred stocks total about $98,-000,000. The bonds are redeemable as a whole at 105 and interest Jan. 1, 1920, or on 90 days' notice thereafter. Secured by mortgage and by sub-companies' bonds and stocks. Sub-companies have a total funded debt of $79,000,000. The strength of this bond lies in the company's earnings rather than in the liens on which it is based. The 8 per cent dividend on the first preferred stock has been paid regularly since 1905, and since 1894 except 1897 (6 per cent) and 1904 (4½ per cent). In 1905 9 per cent was paid. All interest charges on bonds have usually been earned 3 to 5 times over. The year 1917 was no exception to this rule, in spite of this large new bond issue. One reason why this bond shows such a high yield is that the management of the company has failed to commend the entire confidence of investors, but no reason is apparent why the bond is not a good business man's risk.

Virginia-Carolina Chemical First 5s, due 1923, price 94, yield 6.25 per cent. Only $12,600,000 outstanding, not more than half the actual cost of physical properties, and they are being retired by sinking fund at rate of $300,000 annually, for which purpose they are callable at 102½ and interest on two weeks' notice. The issue is redeemable as a whole at 105 and interest. The company usually earns all interest charges from 2½ to 5 times over. An excellent bond.

Chile Copper Convertible 7s, due 1923, price 107, yield 5.5 per cent. Total authorized and outstanding $15,000,000, convertible into stock at par ($25). The property of the company affords ample protection. As the development of these mines is still in its early stages, it is expected that the convertible privilege of the bonds will eventually have considerable value. In 1916 all interest charges were earned more than twice, and current earnings are well in excess of that basis.

AMERICAN TELEPHONE & TELEGRAPH COLLATERAL 4s, due 1929, price 82, yield 6.2 per cent. The total funded debt of this company, including $40,000,000 notes recently issued, is now about $230,000,000, on which the interest is being earned about 5 times. These bonds are to be rated as strictly high grade.

### Railroad Preferred Stocks

Although the general outlook for the railways is not yet settled, in spite of the prospect of a government guaranty of earnings, some of their preferred stocks are in an almost impregnable position. The strongest of them give no better yields than bonds.

On the other hand, high interest yields are obtainable on a number of these preferred issues which are adequately protected by earnings and have prospects for higher prices when the general interest rate on capital falls. The following are listed in order of the earnings applicable to the stocks on the basis of a five-year average:

| | Div. Rate | Times div. earned | Recent price | Apprx. yield |
|---|---|---|---|---|
| Col. & So. 1 pfd. | 4% | 4.2 | *45-50 | 8½% |
| Col. & So. 2 pfd. | 4 | 3.2 | *40-51 | 8¾ |
| So. Ry. pfd..... | 5 | 2.0 | 60 | 8¼ |
| Kan. City So. pfd. | 4 | 1.8 | 50 | 8 |
| C. M. & St. P. pfd. | 7 | 1.7 | 74 | 9½ |

*Bid and asked.

### Railroad Common Stocks

With the railroad situation stabilized for the remainder of the war by a government guaranty—even though the exact terms of that guaranty are not yet decided—the railroad common stocks may naturally be expected to be influenced chiefly by the money market and the rate for capital, in much the same way as the railroad preferred stocks. From that point of view, we believe that the best bargains now are among the preferred issues just mentioned.

On the other hand, where a road is earning double its dividends the government is not going to take that money away from it. The road will get the benefit of its big earnings in some way—probably by reinvestment in the property—and will be in just that much better condition when the government lets go. (There is, of course, a possibility that the government may never be able to let go, but that is not a probability.)

The common stocks of such roads afford safe investments and a good income yield in any event, and from the very long pull standpoint they have good chances of appreciation. For this purpose we would select the following:

| | Est. 1917 earnings | Div. rate | Recent price | Income yield |
|---|---|---|---|---|
| Atchison .... | *15.0% | 6% | 85 | 7.1% |
| Atl. Coast.... | 12.8 | 7 | 91 | 7.7 |
| Ill. Cent...... | 18.2 | 7 | 95 | 7.4 |
| Lou. & Nash. | 23.4 | 7 | 115 | 6.1 |
| Nor. & West. | 15.0 | 7 | 106 | 6.6 |
| Sou. Pacific.. | 16.1 | 6 | 84 | 7.1 |
| Union Pacific | 16.8 | †8 | 116 | 6.9 |

*Actual earnings year ended June 30, 1917.

†Has aslo been paying ½% extra quarterly, which would make yield on present price 8.6%.

### Guaranteed Stocks

Guaranteed stocks in the investment world are a good deal like certified checks in the banking world. That is to say, the dividends of the leased lines are endorsed, *i.e.*, guaranteed, by the lessors. The purchaser has, therefore, two sureties for his dividends, that of the road itself and that of the guarantor. Both would have to pass dividends before the holder of a guaranteed stock would fail to receive his dividends. The fact that the dividends of the guaranteed come ahead of the dividends of the guarantor, when the latter is figuring its dividend disbursements, gives guaranteed stocks of good lines controlled by good lines, practically the standing of an income bond.

The fact that guaranteed stocks enjoy a very high investment rating and that there are only a few of them, and still fewer pressing for sale, accounts for the fact that this particular form of security has never been "popularized." These issues are very closely held and the average investor hears very little about them in a year's time.

Guaranteed stocks are the result of the expediency of, say, a larger railroad taking over the control of some connecting link or branch line essential or valuable to its operations, and preferring to guarantee the dividends of the smaller company's stocks rather than to go out in the open market and purchase the entire stock outstanding—if such a thing could be done. Usually the guarantor is the lessor of the guaranteed,

and the leases are usually made for 99 years or maybe perpetuity.

In the Dec. 23, 1916, issue of this publication Mr. E. Stuart Peck wrote a very comprehensive and authoritative article on this type of security. The reader who desires more information than this article gives should refer to that issue. It will be noted that the yields at that time on the guaranteed stocks which Mr. Peck presented with his article were considerably less than at present. For instance, three issues, Morris & Essex 7¾ per cent; Pittsburgh, Fort Wayne & Chicago 7 per cent; and New York, Lackawanna & Western 5 per cent stocks then yielded, respectively, 4.07 per cent, 4.40 per cent, and 4.27 per cent. Those same issues to-day yield 5.35 per cent, 5.15 per cent, and 5.10 per cent, respectively. In view of the general debacle in high grade investment securities which the last half of 1917 showed it is a strong testimonial to the substantiality of guaranteed stocks that their prices have not declined to a greater degree. It will also be noted that a little over a year ago the Morris & Essex issue was on a 7 per cent basis, while now it is on a 7¾ per cent basis. Here is one of the important advantages of a guaranteed stock, its dividend is limited as to the *minimum* but not as to the *maximum*.

Other examples of stocks which have increased their rates comparatively recently are the Albany & Susquehanna, whose dividends were increased from 9 per cent to 12¼ per cent, through the refunding of 7 per cent bonds with 3½ per cent bonds, and the Georgia R. R. & Banking Co., whose dividends have been raised from 11 per cent to 12 per cent through refunding operations and increasing earnings of the bank owned by the company.

The guaranteed stocks presented in Table III herewith, are exempt from taxation in many states, including New York, New Jersey and Connecticut and also from the normal Federal Incme tax of 2 per cent. Many of the roads have no bonded debt so that in effect the stocks are a first lien on the property. In many instances the capitalization of the leased roads is low and as the roads have been improved by the parent company, the equities behind the guaranteed

**TABLE V—SOUND INDUSTRIAL PREFERRED STOCKS.**

| | Outstanding | No. Times Divs. Earned—5 yr. Average, 1912-16 | Div. Rate | Recent Price | Yield |
|---|---|---|---|---|---|
| Amer. Agr. Chemical | $27,627,200[1] | 2.5 | 6%c. | 91 | 6.5% |
| Amer. Beet Sugar | 5,000,000[1] | 6.7 | 6n.c. | 90 | 6.6 |
| Amer. Car & Fdy | 30,000,000[1] | 2.1 | 7n.c. | 109 | 6.4 |
| Amer. Cotton Oil | 10,198,600[5] | 2.7 | 6n.c. | 80 | 7.5 |
| Amer. Locomotive | 25,000,000 | 2.8 | 7c. | 97 | 7.2 |
| Amer. Sugar Refin. | 45,000,000 | 1.9 | 7c. | 110 | 6.3 |
| Amer. Smelt. & Ref. | 50,000,000 | 3.9 | 7c. | 106 | 6.6 |
| Amer. Tobacco | 52,699,700 | 4.1 | 6c. | 98 | 6.1 |
| Baldwin Loco. | 20,000,000[2] | 2.4 | 7c. | 97 | 7.2 |
| Central Leather | 33,299,050 | 3.2 | 7c. | 104 | 6.7 |
| Internat. Nickel | 8,912,600 | 15.2 | 6n.c. | 96 | 6.2 |
| National Biscuit | 24,804,500 | 2.6 | 7c. | 110 | 6.3 |
| National Lead | 24,367,400[6] | 1.5 | 7c. | 102 | 6.8 |
| Rep. Iron & Steel | 25,000,000 | 2.8 | 7c. | 94 | 7.4 |
| Sears Roebuck | 8,000,000[4] | 19.3 | 7c. | 118 | 5.9 |
| U. S. Rubber, 1st | 61,725,800 | 1.9 | 8n.c. | 96 | 8.3 |
| U. S. Steel | 360,281,100 | 4.0 | 7c. | 112 | 6.2 |

[1] Preferred as to assets and dividends. Cannot be retired.
[2] Full voting power. Subject to call in whole but not in part, beginning July 1, 1916 at 125.
[3] Preferred as to divs., but not as to assets. Full voting power.
[4] Subject to call in part or whole at 125. Voting power.
[5] Redeemable at 105.
[6] May be redeemed at company's option at not less than par.
c. Cumulative.
n.c. Non-cumulative.

stocks have increased. A case in point is the Pittsburgh, Fort Wayne & Chicago Railway Co., which owns the Pennsylvania main line between Pittsburgh and Chicago. This company's original capitalization was $14,000,000 bonds and $19,714,286 7 per cent stock. Since the date of the lease, 1869, the road has been greatly improved, completely double tracked and terminals and other facilities increased, which has been done by the parent company through the issue of $50,000,000 special stock, junior in every way to the original stock. All of the bonds have been paid off through sinking fund operations, so that the $19,714,286 original stock is now a first lien on the property, the cost of which is estimated at more than $100,000,000. No bonds can be placed ahead of the original stock.

Enough has been said to indicate the opportunities and advantages offered by guaranteed stocks. The investor should make a study of the issues which interest him and decide for himself which are best suited to his needs. Guaranteed stocks are an ideal form of investment for those who wish to place their funds at good yields and with more or less permanency of investment. They have not an active market like listed bonds and therefore should not be bought by those who are looking merely for a "turn" or who are likely to need to liquidate their holdings in a hurry.

### Public Utility Preferred Stocks

In addition to the general decline in investment security prices which has been the result of this country's entry into the European War, the public utility corporations have had their own specific difficulties to meet. The major portion of them may be summed up in the words, "rising costs." Unlike industrial corporations public utilities whether they deal in carfares, light or power rates, cannot readily readjust their charges to meet advancing costs.

The public demand, with the public's usual disregard to the necessities and justification for higher rates, is that if rates cannot be lowered they at least must not be increased no matter to what extent the ratio of operating cost has risen. The various public service commissions, owing their existence to the public, naturally are aligned with the "people," and many public utilities, therefore, have found themselves engaged in a veritable struggle for existence. The stronger companies have been able to ride the storm, but as a result of the situation with its uncertainties, the prices of even the best grade of public utility securities have been depressed more than actual conditions warranted.

### Outlook for Public Utilities

Speaking of the prospects for public utilities as a class a man who has made a very careful study of the general situation and the important companies in the public utility field said to the writer:

"It is my belief that the corner has been turned for the public utility companies. I think that the public is coming to understand the necessity, in a great many cases, for higher rates in conformance with the general rise in prices all along the line. Of course there is always the question of municipal or governmental ownership, but whatever way that works out it seems to me that the holders of the better grade securities of the better grade companies have nothing to fear."

Table IV, "Selection of High-Grade Public Utility Preferred Stocks of Investment Attractiveness," which accompanies this article, is self-explanatory.

### Sound Industrial Preferred Investments

Having surveyed the fields of bonds, guaranteed stocks, railroad preferred stocks, and public utility preferred issues, and having decided what portion of his capital he desires to employ in buying those securities the investor-for-income-and-profit may next turn to the industrial preferred field. Here he will find rock-ribbed preferred stocks selling on a 6 per cent yield basis, and if he cares to consider the preferred stocks of companies whose issues are subject to more or less fluctuations (although even in the worst times they have earned and paid their preferred dividends with good margins to spare), he can easily obtain 7 per cent on his money.

In Table V a list of seventeen industrial preferreds is given, together with the average times the preferred dividend has been earned for the last five years, the dividend rate, recent price and yield on that price. The company showing its preferred dividend earned the greatest number of times on average during the last five years (Sears-Roebuck) naturally makes the

lowest yield, but even its return is just a trifle short of 6 per cent. Those making the highest returns, Republic, Baldwin, American Locomotive and American Cotton Oil are perhaps not as seasoned issues as some others owing to the fact that the industries they represent are subject to peaks and depressions. With the exception of Republic which has been able to make up its arrears in its preferred and establish itself as a regular 7 per cent basis since the war began, all of these companies have earned and paid their preferred dividends during the last five years.

In the case of a company like Republic the investor should be prepared for the worst as well as the best. If a severe depression should eventuate in the steel industry the preferred dividend might be reduced or even passed, but on the other hand such depressions have always sooner or later been followed by periods of great prosperity in steel. The investor should be prepared to see his stock go down and be ready to add to his holdings at lower prices in the confidence that the turn of the wheel of industry will bring earnings up once more and he will be rewarded for his patience not only by the returns on his investment but by its market appreciation. On the other hand if the ending of the war creates, as sound analysts believe, a broad demand for high grade securities, the purchaser at present prices may look for an immediate increment in the market valuations of his holdings.

Two other excellent industrials which might very well be included in the list are Bethlehem Steel's 8 per cent preferred and General Motors 6 per cent preferred. Bethlehem's 8 per cent preferred issue is preferred as to dividends over the 7 per cent preferred and common stocks and shares equally with the 7 per cent issue in distribution of assets. It is convertible at any time by the holder into "B" common at 115. At 100 the stock yields 8 per cent. General Motors has shown very large earnings on its preferred stock, the average for the last five years being 82.33 per cent or more than thirteen times the preferred dividends requirements. Paying 6 per cent and selling at 84 the issue yields 7.1 per cent.

It will be perceived that the five years on which the earnings on the preferred stock in the tabulation are averaged, does not include 1917. Although this was not as good a year as the 1916 record year, nevertheless all of these companies will show very large earnings for last year. For instance, in the fiscal year ended June 30, 1917, American Agricultural earned 20.10 per cent on its preferred stock. In the year ended August 31, American Cotton Oil earned 15.04 per cent on its preferred; in the year ended June 30, last American Locomotive earned 28.80 per cent on its preferred, and in the year ended March 31, 1917, American Beet Sugar earned 97.66 per cent on the preferred stock. Enough has been said to show that when the complete list of 1917 earnings is at hand it will indicate a much stronger position both as to earnings and assets than the table herewith shows.

### Chain-Store Preferreds

This discussion of investments would be incomplete without some mention of the "chain-stores." Readers of this publication are thoroughly familiar with this class of securities, as their theory and practice have been expounded in considerable detail in these columns from time to time. Herewith is a list of four chain-stores preferred stocks which range from the great stability and comparatively low yield of Woolworth, to the less seasoned and therefore somewhat more speculative issue of McCrory preferred. Although McCrory makes the high yield of nearly 9 per cent. on its preferred at a price of 80, the company, in the two years of its present corporate existence, has averaged approximately 30 per cent. per annum on the senior issue or more than four times the preferred dividend requirements.

**CHAIN-STORE PREFERRED STOCKS OF MERIT**

| | Cumulative Preferred Stocks | Div. Rate | Last Reported Earnings on Pfd. | Recent Price | Yield |
|---|---|---|---|---|---|
| Woolworth | $13,000,000 | 7% | 67.0% | 117 | 5.8% |
| Kresge | 2,000,000 | 7 | 106.4 | 103 | 6.7 |
| McCrory | 12,500,000 | 7 | 33.7 | 80 | 8.7 |
| United Cigars | 4,527,000 | 7 | 63.8 | 110 | 6.3 |

# BUSINESS AND FINANCE SERIES

**No. VIII.**

# Why Coal Is King

## Second Most Important Industry in the Country—Great Variety of Uses—War Demands for Coal—Post War Prices for Coal

**By FLOYD W. PARSONS**
**Editor, *Coal Age***

NEXT to agriculture, the most important industry in the United States is coal mining. Particularly has the present war brought home to us the necessity of an adequate fuel supply. Even in peace times no nation can hope to attain industrial supremacy if it lacks cheap fuel to generate power for its mills and steam for its railroads.

In war the valor of any nation's arms is exercised in vain if our country is without coal mines. Italy, for instance, could not long resist her present enemies were it not for the coal, and products of coal, supplied her by Great Britain.

The German General Staff aimed the first blow of the Teutons in this war at the coal mines of France and Belgium. The drive netted the Germans practically all of the Belgian mines, producing 24,000,000 short tons annually, and nearly one-half of the French collieries, having an output of 22,000,000 tons. On the east front, the Germans also secured coal through their successful campaign in Poland, where all the coal operations in the Dombrowa basin fell into their hands. This district produced 7,000,000 tons, or one-fifth of the total.

### Coal Is Something Besides Fuel

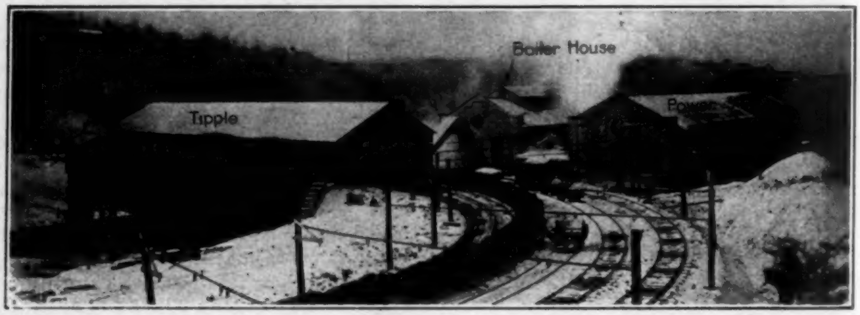
To the average layman coal is little more than a black lump of something that will burn. Here in the United States we have so much of it that we are prodigal in its use. Succeeding generations will be amazed by the story of how once raw coal was burned simply to generate heat, and of how coke was made in beehive ovens, where the valuable constituents sailed out and away—lost forever.

The greatest advantage possessed by Germany when war started was her perfected processes and numerous plants built to extract the by-products of coal. Here she secured that marvelous explosive T. N. T. (trinitrotoluol) which has no equal, and which cannot be obtained successfully from any other source than coal. Fortunately, the urgent demands of the Allies for explosives early in the war caused American manufacturers to develop here in this country a very respectable coal by-product industry which furnishes us with sufficient T. N. T. to supply our wants.

Not many persons realize that more than a hundred by-products are derived from coal. The chief of these are: Ammonia, which goes into agriculture and refrigerating; coke, which is the basis of steel manufacture; and last but not least the tar from which we make wood preservatives, lubricants, lamp blacks, dyestuffs, disinfectants, insecticides, perfumes, aspirin, sodium benzoate, phenol, acetanilid, flavorings, varnish and dozens of other things just as essential. If the war accomplishes no other purpose, it has at least developed our coal by-product industry and freed several of our businesses, including the manufacture of dyes, from the commercial domination of Germany.

The total coal deposits of the world are estimated to be 7,397,533 million (metric) tons. Of this America has seven-tenths, Asia two-tenths and Europe one-tenth. The United States has 3,838,657 million tons; Canada, 1,234,209; Germany 423,356; Great Britain, 189,530; Russia, 60,106; Austria-Hungary 59,169; France 17,583 and Belgium, 11,000 million (metric). tons.

The world's coal production is now approximately 1,346,000,000 short tons. Of this total the United States furnishes 642,-978,587; Great Britain, 287,000,000; Germany, 260,000,000, and Austria-Hungary, 55,000,000. France, Russia and Belgium come next in the order named. While the output of the European nations has decreased since war started, the coal production of the United States has increased more than 70,000,000 tons. In 1913 Great Britain produced 321,922,130 tons, and Germany 305,714,664. Their output has been decreased through miners going to the front.




TYPICAL SURFACE PLANT AT A BITUMINOUS (SOFT COAL) MINE.

## How Our Coal Is Used

It is interesting to note just where and how the coal produced in the United States is consumed. The greatest users are our industrial steam plants. About 35% of our total output is burned for steam purposes. Next come the railroads which consume 29% of the production, and then come domestic consumers, who burn 16%. These three requirements utilize four-fifths of the nation's total supply. Coal for coke manufacture consumes 14%, exports take 4% and the remainder goes for use at the mines, coal-gas manufacture and steamship bunkering.

The United States, with its vast coal areas and 8,000 collieries, is nevertheless in reality a non-exporting nation. Our coal exports have never exceeded 4% of our output. Of this small total about 70% is shipped to Canada. Great Britain is the premier coal-exporting country; with Germany following next. The British exports in 1913—the year prior to the war—were 77,000,000 tons. The German exports were 44,000,000, while the United States was third with 18,000,000 tons.

The British are fortunate in the location of their best fuel beds known as the Welsh steam coal. This semi-bituminous product is the world's standard fuel and is only equalled by the coal produced in the New River and Pocahontas fields of southern West Virginia. The Welsh collieries are situated within a few miles of Great Britain's largest seaports, while the New River and Pocahontas districts lie more than 200 miles from tidewater. It is fortunate, however, that those of our coals most accessible to the seaboard are the very best smokeless steam coals we possess, for in this day of the submarine, naval vessels must burn a fuel that does not so easily betray the man-of-war to the enemy. The German coal basins are also located quite some distance from a seaport, but the German government, through its ownership of the railroads, has adjusted freight rates favorably and thus lent material encouragement to the export business.

The immensity of America's industries renders it unnecessary for the coal-mine owners of the United States to seek foreign markets; however, our failure to partici-

pate more extensively in the export coal trade has been due to a lack of ships, and to a national banking policy that provided no facilities for credit in foreign lands. Both these conditions will be corrected before the present war ends, and then if a proper effort is made by Americans to provide adequate docking and distributing facilities in the principal coalless countries, the United States will secure its share of foreign business, especially in South America where the coal resources are very limited and the annual needs approximate 15,000,000 tons annually.

MINING MACHINE READY TO UNDERCUT THE FACE OF A ROOM IN A BITUMINOUS MINE.

### America's Supply

Not only is this country fortunate in the extent and quality of its coal seams, but most of the beds are easy of development, especially the bituminous and lignite seams, where in certain favored regions the average cost is below $1.15 per ton. Coal in Germany, France and Belgium is not so easily or so cheaply mined, due to thin faulted beds that mostly lie deep. English seams present fewer problems; however it is worth noting that in Continental mines, where so many physical difficulties must be overcome, the art of mining has reached its stage of highest development.

In the matter of anthracite coal this country is again favored, for it contains the greatest, and in fact the only important deposits of this clean smokeless fuel on earth. Anthracite, however, is hard to mine, and since it must be crushed and sized, it is expensive to prepare for sale. The supply of anthracite is limited, so that it is certain to result that this kind of coal will become more and more a luxury. The entire anthracite industry is in the hands of a few companies that up until recently were subsidiaries of the so-called "hard coal" roads. The managements of these collieries decided more than a decade ago to follow the plan of selling all their coal at a fixed price, and in good times and bad the circular prices were maintained. This wise policy of the coal owners has been rewarded by Federal commendation in recent investigations.

Coal will never again sell at the low prices that prevailed before the war. Several hundred million tons of good coal have been forever lost in recent years, due to inefficient and wasteful methods of mining. Up until two years ago the entire bituminous industry of the nation was so disorganized that ruinous competition forced the colliery owners to mine only the most favored seams, leaving such pillars and parts of the bed as would have been diffi-

cult and costly to bring out. Such a policy is criminal in any case, and especially so in that of a natural resource which, when gone, cannot be replaced.

### The Price Will Be Higher

The factors that will establish a higher price for coal in the future are:

1. Legislation compelling high extraction. 2. Permanently higher wages. 3. More perfect preparation and grading of the product—every pound of slate hauled is the worst kind of wasted effort. 4. Greater safety precautions and workmen's compensation. 5. The development of less favorable seams. 6. The probable increase in the price of all the essentials entering into mining work. It is likely, however, that a considerable part of the increased cost of coal will be saved by the consumer, who will undoubtedly employ better methods and get greater efficiency out of what he burns.

The present winter has taught America lessons the people will not soon forget. Here are we, a nation producing nearly one-half of the world's coal output, and yet having only one-seventeenth the world's population, we suffer a fuel famine. The entire trouble is lack of transportation facilities, principally locomotives, and this deficiency, so the railroads contend, is largely due to restrictive government control of freight rates.

All this year the mine owners have complained of car shortage. Even during the summer the mines operated at only from 60 to 75% capacity. The government's price-fixing policy shut down many small mines, but the principal factor in curtailing output was a lack of locomotives and cars. Now that the government has assumed control of the railroads, it is to be expected that this summer will see the transportation problem corrected.

Already Director-General McAdoo has commandeered every locomotive available. More than 700 will be finished and turned over to Assistant-Director Smith during the next 90 days. These will be assigned to the eastern roads where they are most needed. It is further proposed to run through freight trains between the west and the east, saving days on each car's service. Other relief measures include plans for getting the maximum load onto each car, the immediate unloading of freight, the elimination of cross hauls, etc., all of which is encouraging news even though the remedies are a bit late in being applied.

### We Must Stop the Leaks

There will be no more winters of such fuel scarcity in the United States unless we have bunglers on the job. The coal mines of America are well equipped and have never yet been worked to anything like capacity. That they are efficiently managed is proved by the results in the anthracite field during 1917, where with a 16% shortage in labor, the output was increased 14%.

We must immediately stop the leaks, cut out lost motion and in every way profit by our mistakes. This means the establishment of extensive emergency coal storage yards, many of which may be municipal projects, the utilization of every possible waterway to relieve rail transportation, the material improvement of ship bunkering and city distributing facilities, so that people in centers like New York will not freeze while nearly a half million tons of coal lie in cars at terminal yards almost within gunshot, and last but not least, we must not draft our miners who are doing a bigger bit here underground than they ever can in the trenches in France.

There is no substitute for coal. The supply of petroleum and natural gas will continue to decrease. Utilizing the sun's heat and harnessing the ocean tides offer no solution. This being true, it follows that the material advancement of any people will continue to be based on that nation's available coal supply. German coal has held the Scandinavian countries in line during this war. It is this same essential product that causes her to shed her blood about the collieries and by-product plants at Lens. Politics in the Far East will be swayed by the coal deposits of Japan and China. Is it any wonder then that the United States, with its inexhaustible and easily accessible coal seams is the fear and envy of other nations? Is it any wonder we are proud of the American miner who produces twice as much coal as his European brother? And is it any wonder that knowing all this we are ashamed of the spectacle of shivering incompetence we are presenting to the world this winter?

# MONEY--BANKING--BUSINESS

## Money—The Main Fundamental Factor

### Its Relation to the Movements of Security Prices

By GOUVERNEUR MUNRO

A REVIEW of current market literature discloses the fact that not since the boom times of the fall of 1916, with its million share days and soaring prices, has there been such a unanimity of opinion, particularly among writers of financial columns in the newspapers and brokers' market letters, regarding the position of the market and the future course of prices. Almost to a man they are agreed that the present market is but the beginning of a new bull movement which requires only the certainty of early peace to start it upon its upward career in earnest.

#### Discount Printed Opinion

For reasons which are obvious to those acquainted with the business side of journalism, the financial columns of many newspapers tend strongly to the support of what is often termed the constructive side of the market. As a matter of policy advancing markets are regarded as desirable and reactions something to be plausibly explained. As the vast majority of persons interested in the price movement of securities are chronic bulls, many newspapers give their readers what they like best. Newspaper market opinions, therefore, should not be taken too seriously.

Prices cannot always advance, nor forever decline. A study of the stock market graph of average prices published on page 681 of the February 2 issue of THE MAGAZINE OF WALL STREET will demonstrate that up and down swings tend to equalize each other over any considerable period of time. The price curve referred to begins with the year 1902, at approximately 115 for the 20 stock averages used at the time. After advancing to 130 in the first year shown, declining below 90 in 1903, advancing almost to the 140 line in 1906, declining to very near 80 in 1907, swinging back above 130 once more in 1909, at the end of ten years, by the fall of 1912, these average prices were once again at a price level almost identical with that at which they started the ten year period on January 1, 1902.

#### Swings of Market Equalized

The career of the 50 stock averages, made up of 25 railroad and 25 industrial stocks, which is also graphically shown in the same picture, has like characteristics. At the beginning of 1914, before the great war was thought possible, the average figure for these 50 representative stocks was 70, or thereabouts. The war's abrupt outbreak, late in July, brought about a decline to 60, which was extended considerably (although not shown in the graph because the lower prices were unofficial) in the curb market on New Street which sprung up during the period the Exchange remained closed. Then came the great bull markets of 1916 and 1917, at the height of which the figure 100 was passed. December of last year saw these averages back again below 60, and at the first of the year the figure 70, around which they held for the first half of 1914, was again approached on the year-end recovery.

During the period from the middle of 1914 to the close of 1917 events of epoch-making importance took place. No other period in the world's history has been more full of significant happenings, never before has there been such a colossal contest of military and economic forces, nor was ever a decision pending so fraught with momentous importance to all the peoples of the world. How has the stock market measured the possibilities of the great conflict which has now been raging for three and one-half years? In its customary manner, declining with the beginning of the war, rising with the vigor of its prosecution, declining after the rise had exhausted the distributive possibilities of the period, and, finally, showing

a tendency to recover again with the hope of its near ending.

How much responsibility for the wide movement in the average market during recent years may be laid at the door of the war, and how much is due solely to the natural needs of the market itself may not easily be answered. But a glance at the graph referred to will show that the tidal swings in the market come and go, with a certain degree of regularity, upswing following downswing in due order, with average prices, after ten years or so, getting nowhere in particular.

Many students of economics related to security price movements are of the opinion that prices follow earnings. Increasing earnings for corporations will stimulate a higher price level for securities, and vice versa. It is a plausible theory and sometimes works out. The years 1915 and 1916 were years of increasing industrial earnings, and both years had vigorous bull movements. Yet the annual reports for 1917 now coming to hand show that last year's earnings were the largest in the history of many representative corporations, even after making extraordinary allowances for taxes and depreciation charges, while for most of those which show a falling off from the previous year's results, the loss in net income was relatively small.

### Record Earnings and Low Stock Prices

Yet in the face of this eminently satisfactory earnings situation, the general market position, as measured by the averages of 50 representative stocks, was only a month ago well down into previous panic levels. Therefore, while stock prices may to a certain extent follow earnings upward, as was demonstrated in 1915 and 1916, they assuredly show an independence of action in the downward direction, at times anticipating rather than following a reactionary tendency in earnings.

If the action of the market, by its great decline during the last year, in the face of industrial earnings sustained at record levels in most cases, and continuing to increase in many others, is sufficient to cast an element of doubt upon the theory that security prices follow earnings, we must look elsewhere for an underlying principle to apply in its stead.

Several years ago the writer had the privilege of a long discussion of market economics with a man who knew a great deal about the subject, and whose market experience had covered a well-rounded period. We were delving deep into the subject of the so-called fundamentals which are supposed to control the movements of prices in the stock market. I had just put a rather involved question predicated upon a certain situation of several fundamentals, inquiring if a certain market movement could be counted upon to follow as a result of the conditions described. The situation in the steel trade, crops, banking, politics and what not were involved. My patient listener waited attentively until I had finished, and raising his hands in a gesture calculated, as it seemed, to cast aside the clouds of theory which bade fair to engulf us, said: "My dear man, there is but one fundamental with which the stock market directly concerns itself, and that one is money. We may dismiss all the others as irrelevant and confusing!"

### A Sound Statement

I have never forgotten those words, and while I must confess that I did not at the time accept his statement for a fact, nor for a long time afterwards, study and experience of later years have borne the solid truth of it home to me. "Money makes the mare go!" is a homely saying, but a fact nevertheless. Without money, or its equivalent in credit, no one could buy stocks.

So far as the past record of stock prices in the United States is preserved for examination it is shown that no long sustained upward movement has occurred at a time when banking reserves were low, demands for capital in industry at a relatively high pressure, and interest rates accordingly inflated.

The position of money may readily be ascertained by an examination of these three factors; banking reserves (cash in banks in proportion to deposits), demand for capital (ratio of loans to deposits) and interest rates (prime commercial paper). Let us see what has been the relation of these money barometers to stock market movements of the past.

### Bull and Bear Markets

Going back as far as the early nineties we find that in 1891, a period of liquidation had resulted in the accumulation by the

national banks of plentiful reserves, a generous surplus of deposits over loans in the New York banks, while commercial paper of accepted standing was readily placed at a rate below 4 per cent. All of which designated a sound financial position out of which grew the bull market which culminated a year later.

A similar monetary position existed late in the years 1893, 1896, 1900, 1903, 1907, 1910 and 1914. Bull markets followed in each instance, the movements from 1896, 1900, 1903, 1907 and 1914 being very wide and vigorous.

On the contrary, early in the year 1890 reserves in all national banks were low, deposits in New York banks showed only a small surplus above loans and commercial paper had risen to a relatively high rate. A bear market for securities, with liquidation in business, followed. Similar money conditions prevailed in 1892, 1895, 1899, 1902, 1906, 1909, 1912 and 1917, with the same result in the stock market—a prolonged bear movement.

While the fear of sudden peace brought a hurried selling of "war stocks" in December, 1916, and a further semi-panic among security holders followed the declaration of unrestricted submarine warfare by Germany on February 1, 1917, money conditions remained satisfactory until well into last summer. Average prices had recovered materially from December and February lows by the middle of June, and our premier industrial security, U. S. Steel common, established its record high late in May. Railroad stocks from early in October, 1916, maintained an independent steady downward movement, which continued until very near the close of 1917, largely because fixed freight and passenger rates could not compete successfully with rising operating costs.

### Is the Money Situation Favorable?

Now that security prices have recovered sharply from the extreme low quotations of last December, and peace hopes have brightened remarkably, it is pertinent to inquire if that favorable position of the money market which has heretofore invariably preceeded a genuine bull movement in the stock market again prevails, or if not, what are the prospects for an early improvement.

First in the order of importance let us examine the condition of all national banks in the matter of reserves. Prior to the time the new currency law went into effect late in 1914, national banks were required by law to keep reserves of from 15 to 25 per cent., according to the classification in which the particular bank belonged. The average for all banks was around 20 per cent. The new currency law allows banks to reduce the legal percentage of reserves materially, and this has already resulted in a considerable expansion of credit.

Consequently, because of the changed standards, national banks which formerly could without undue strain let reserves get down as low as 20 per cent. may now allow this item to get down to a lower basis, but, of course, there is a limit to the depletion permitted. Early in 1915 reserves of all national banks were up to 26 per cent., the highest for some years. By mid-summer of last year, 1917, the percentage figure had dropped sharply to around 21 and the most severe portion of the great decline in the stock market may be said to date from that time. The percentage figure for reserves to net deposits in all national banks at the time of the last call of the Comptroller is not available at time of writing, but the supposition is that restriction of reserves continues. This does not favor a bull movement in the stock market at the present time.

The ratio of loans to deposits in New York banks, while showing some improvement over recent extreme extension, is still far below any point which in the past prevailed during the early period of a genuine bull market for stocks.

The third foot of our yardstick for measuring the monetary position, interest rate on prime commercial paper, is also unfavorable, at this time, to the supposition that an extended bull campaign is at hand. Heretofore this class of business paper has readily discounted at a rate below or not higher than 4 per cent. during the early months of a bull movement in stocks. No such movement has in the past begun with a rate of 5 per cent. or higher prevailing, and a rise to 6 per cent. has often signaled the beginning of an important downward movement. The rate at the present time is 6 per cent., showing that the demand for capital in industry and commerce is still insistent. Everyone is familiar with the needs of the nation for capital to finance the

war, and this, although somewhat counterbalanced by inflationary financial measures adopted by the government, adds to the strain on capital resources.

### Rally at Critical Point

At the same time, despite the apparent unfavorable money situation, we must not lose sight of the fact that the industrial group of stocks, as measured by an average figure made up from 25 selected corporations, had up to February 2 already recovered practically 50 per cent. of the ground lost in the great decline from the high point of the recovery which culminated in June of last year, and the extreme low of last December. It is because of the present position of these averages, then, that the situation at this time is most critical.

Any further material advance beyond the normal half-way recovery from the December lows would indicate the presence of forces in the market of sufficient strength and stability to almost insure a continuance of the upward movement, with the usual reactions and hesitations, for several months to come. It is around present levels that the real influence of the position of the money fundamental must be expected to exert itself, and if the history of the past is any criterion, the opinion may be here expressed that the rise is not far from the point of check.

Speculative common stocks as a class have had the largest relative recoveries in the present rise, and should be the first to feel the force of the check, if the normal influence of the position of money is finally exerted. Pools in many of these issues have, however, been especially favored because of the liberal dividend policies followed. While many industrial stocks continue to pay dividends from 8 to 20 per cent., and the income yields, at current market prices, range from 8 to 14 per cent., pools experience little hardship in carrying generous quantities of their favorites. As long as dividends keep up on the present satisfactory basis, prices can be readily marked up from time to time, and distribution to the public, at advantageous levels, can be accomplished without undue haste.

Therefore, pending a betterment in the money situation, seasoned industrial preferred stocks, returning excellent income yields at present price, appeal to the writer as much more sensible purchases than any of the more speculative favorites at the moment. Many of the standard rails may also be purchased for the same reason that preferred industrials of standing may be, because they are still cheap according to past standards, and further, in the case of the rails, because the government's proposal of a fair and liberal earnings guaranty will probably be enacted into actual law in the near future.

In case a sharp falling off in earnings by industrial corporations should occur in the present year, common stock issues would be the first to reflect the adverse change. But large surpluses built up in the last three years of prosperity should stabilize the market for preferred shares for some time to come.

---

**February 6, 1918.**

**Editor Magazine of Wall Street,**
**42 Broadway,**
**New York City.**

**Dear Sir:—**

**In the February 2nd, 1918, issue of The Magazine of Wall Street, in an article on "Ray Hercules," you mention me as being engineer for this company. On account of the wide circulation and good standing of your magazine, I cannot allow your statement to pass uncorrected. Therefore permit me to inform you that I have no connection with the Ray Hercules Copper Company and never have been in the employ of the company.**

**I believe it was about 1910, long before the present Ray Hercules Copper Company was organized, that I supervised some churn drilling on the property of the Arizona Hercules Copper Company and made a report on the amount of ore developed by that drilling, but have had nothing to do with the later estimates of developed ore or with any estimates of the cost of producing copper.**

**Yours very truly,**

**HENRY KRUMB.**

**We are very glad to print Mr. Krumb's statement, which brings out the fact that he has not been connected and is not now connected with the present Ray Hercules Company. In justice to ourselves, however, we feel that we should state that one of the earlier reports which Mr. Krumb made before the present company was formed, was published as of January 1, 1915, thereby creating the impression that Mr. Krumb was identified with the new company.—*Editor.***

# Leading Opinions

**About Financial, Investment, Banking and Business Conditions**

### Uncle Sam—World's Banker

How the United States has become the dominant banking power of the world is shown in the annual report of the Comptroller of the Currency, John Skelton Williams, presented to Congress.

Comptroller Williams estimates the whole banking power of the nation at $37,529,000,000, an increase of more than $14,000,000,000 since the beginning of President Wilson's Administration. Taking the latest estimate of the banking power of the world, placed in 1890 at $15,558,000,000, America's increase is alone nearly equal to the world's combined banking power twenty-seven years ago, and on that basis is now two and a half times as great.


—*N. Y. American.*

"THAT'S TOO BIG FOR YOU, SON."

The danger from decline of earning capacity of public utility corporations and consequent shrinking of values in their securities, the Comptroller warns, is a real danger which should stimulate the efforts of Congress and every patriotic citizen.

First relief, he thinks, might come from State commissions and municipal authorities, and he expresses the hope that Congress will directly or indirectly provide for the advancing of money to corporations where it is necessary to insure proper service to the Government. The proposal is unusual, the Comptroller admits, but he points out that the times are unusual.

Government guarantee of bank deposits in sums under $5,000, the Comptroller believes, would bring into us much hoarded money and he renews his recommendation to Congress to enact such a law.

### Leading Comment on R. R. Situation

Theodore P. Shonts, president of the Interborough Rapid Transit Company of New York, addressing the Board of Commerce at Detroit, Mich., said in part:

"As a possible solution of the national problem with which our country is struggling—Shall we return to old railroad conditions after the war? —I suggest a partnership between the Government and the railroads, something like the partnership that has been formed in New York by the city and the rapid transit lines for the construction and operation of the city's new dual rapid transit system.

"The railroad traffic map of the country is now divided into zones for rate-making purposes. In a modified way this same arrangement can be extended to cover physical operation, with the supreme authority lodged in a board of management at Washington, composed of:

"The United States director of each zone.

"Representatives of private security-holders.

"Representatives of the Government's investment.

"Representatives of labor.

"This board should be presided over by some one designated by the President.

"With such a management, designed to unify and co-ordinate direct private operation, the ill effects of unrestricted competition will be overcome. It will also bring about scientific distribution of the use of the rails and minimize all lost motion."

Seward Prosser, president of the Bankers' Trust Company, acting on his belief that a trustee should pursue its trusteeship duties diligently at all times, has just presented to the Senate Committee on Interstate Commerce, suggestions from the bondholders' viewpoint relative to the Government's treatment of the railroads.

The Bankers' Trust, the memorandum points out, is trustee under the railroad mortgages under which $3,559,000,000 of railroad bonds may be issued, and under which $1,583,000,000

of railroad bonds have already been issued. As such trustee, the memorandum states, the Bankers' Trust "has determined to present the bondholder's point of view in the light of its experiences and on behalf of the scattered millions of bondholders who cannot directly present their case."

Under the governmental guarantee to the railroads of their average net operating income for the three years ended June 30, 1917, the brief continues, the earnings available for reinvestment will aggregate $200,000,000 annually. When equated to the purchasing power as of 1910, if present prices continue, they amount to only $110,000,000, it is added.

As practically all new capital invested will be represented by an increase in the issue of bonds, and none by stock, it is pointed out that margin of safety will become more and more inadequate. If this is accompanied by under-maintenance, and by the deterioration of operating efficiency, the memorandum adds, the roads will be returned to their owners in a condition which will mean a deteriorated security for the bondholder.

### 5th English R. R. Wage Increase

A fifth raise in wages has been granted by the English Government to the railway workers—an additional six shillings a week—bringing the total increase since February, 1915, up to 21 shillings a week, says *Dow, Jones & Co.* The average pre-war wage was 30 shillings.

The wage advance has raised the railway payroll from $230,000,000 to $390,000,000 a year. This increase of $160,000,000 is 94 per cent of the total dividends paid before the war, and in excess of the dividends now being paid. In other words, the English roads under government war operation have an increased labor cost that they cannot carry after the war without a large increase in rates or a continuance of the government guarantee.

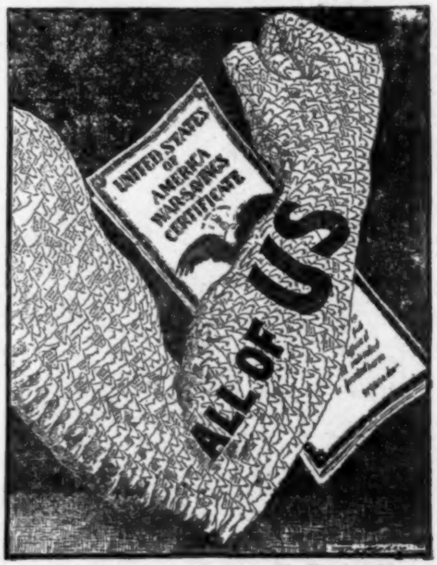
Director-General McAdoo already has before him demands for wage increases from the trainmen, switchmen, telegraphers and other employes. Since the beginning of the European war, average American railway wages have advanced about 20 per cent, but the employes point out that the cost of living has risen 50 per cent. The instant the Director-General grants a general advance in wages to any group of employes—the trainmen, for example—all the other employees in the railway army of 1,600,000 men will demand the same war bonus. Every 10 per cent advance in the payroll will add $150,000,000.

The English war bonus of 21s a week is about $250 a year. As large a bonus here would call for $400,000,000. It could be met by a 10 per cent increase in all railroad rates.

### Burton Optimistic On Bond Outlook

Theodore E. Burton, president of the Merchants National Bank, told members of the Bond Club at the monthly luncheon recently in the Bankers Club at New York that while financial calculations for the future could not safely be made until the war ended, the outlook for investments was improving.

"I believe there will be an increasing demand for your services in the future," he said. "The industrial operations of the country cannot cease. As time progresses the Treasury Department will recognize the necessity for prompt disbursement to aid all those who are taking part in manufacturing and furnishing articles that are necessary for war and that is likely to make money easier.




—*N. Y. American.*

THE ARM WITH THE PUNCH.

"It is inevitable that the operations of the whole world in the years that are to come are going to centre around this city. The financial centre of the world, if you go back to remote antiquity, was first at Tyre, then at Carthage, then at Rome, then for centuries at Venice, then it shifted to Amsterdam, then to London, and now it is inevitable that the centre of the world's greatest financial operations will change from the banks of the Thames to the banks of the Hudson. No one can foretell the greatness of this city in its commerce and finance."

### "Must Foster Business"—A. B. Hepburn

A. Barton Hepburn, banker, author, and

economist, when asked recently to comment upon Secretary McAdoo's proposal for a $500,000,000 War Finance Corporation, said:

"This war can only be won by keeping business in full volume, by fostering individual activity and business prosperity. People can only pay taxes and buy bonds, in other words can only furnish the Government with money to carry on the war, from their net earnings, savings, what they have left from their earnings after paying all their expenses.

"The obstinate refusal on the part of the Interstate Commerce Commission to allow the railroads to increase their charges to the public, when the cost of labor, the cost of coal, and all other costs of administration were increasing by leaps and bounds, certainly put the railroads in a position where relief must come from some quarter. It seems the relief is to come in the form of taxation, as evidenced by the bill now before Congress. The railroads were not permitted to require shippers and passengers to pay the additional costs and now the taxpayers must. The government has taken over the railroads and some means must be adopted to provide for their financial needs, and the railroads' necessities are equally the necessities of the public.


*—Evening Mail.*

FISHERMAN'S LUCK.

## New Loan Greatest Ever

Within a short time a third Liberty Loan will probably be offered by the Government, and steps are actively under way to prepare for this new war financing. In this connection, President G. W. McGarrah, of the Mechanics and Metals National Bank, says in part:

"Although no formal announcement has come out of Washington, it is generally accepted that the loan will be not only the greatest in the history of this republic, but also the greatest in the history of the world. It behooves the bankers of the United States to prepare with the utmost care and thought for the forthcoming financing, without at the first being too sanguine regarding its success. Since last summer 10,000,000 American people, most of them new investors, have taken two Liberty Loans, oversubscribing them by a wide margin. Insofar as these people have already given dependable evidence of their patriotism and have come to know what Liberty Bonds are, the sale of the third loan will, it is hoped, be accomlished even more readily than was that of the previous loans. Properly directed, the American public can be depended on to support the forthcoming loan to its utmost power. But it is to the bankers of the nation that the public will undoubtedly look for guidance, and unless the bankers accept their responsibility, and recognize the increased importance of the part they have to play in war financing, public subscriptions will lag."

## Opposition to Gov't Finance Corporation

The National City Bank, of which Frank A. Vanderlip is president, declared in its monthly bulletin issued recently that Secretary McAdoo cannot launch and operate his proposed half-billion-dollar War Finance Corporation without disastrous results to the country.

This statement by the largest bank in the United States is predicated on the provision in the bill that would allow the Finance Corporation to issue eight times its capital stock in notes.

This, says the bank, would create a "pyramid of credit" only, and would not add one whit to the country's fighting power. The bulletin says:

"We do not believe there will be any occasion to inflate the credits of the reserve banks or the currency of the country to the extent indicated or that it can be done without disastrous results. It is undoubtedly important to support the essential industries of the country and bring them to the highest efficiency, but the printing press is not an effectual agency for accomplishing that purpose. That end must be accomplished by organizing, co-ordinating and directing the industries and concentrating them upon war work.

"Moreover, as this is the view which the Federal Reserve Board and the Secretary of the Treasury have tenaciously held and ably

advocated in the past, we feel bound to assume that they are not really intending to depart from it so far as the text of this measure would indicate. We think it a mistake to even countenance such a policy by providing for its possible adoption.

"We recognize one condition under which it might be desirable that sound investment securities should be accepted by the reserve banks as the basis of loans and currency issues. That is in case of a great crisis which included a run on the member banks or savings banks by depositors."

### W. P. G. Harding on 1918 Financing

In spite of the unprecedented volume and amount of the Government's loan transactions, and of the decline in the market value of standard stocks and bonds, there has been no financial crisis, and no sensational fluctuations in rates of interest, says W. P. G. Harding, Governor Federal Reserve Board.

The large credit operations of the Government and the unprecedented speeding up of business in many lines have resulted, as a matter of course, in an expansion of banking credits as well as in an increased volume of currency in the shape of Federal Reserve notes, but the reserves held by the Federal Reserve banks against deposits and note issues *are far above legal requirements and constitute a financial bulwark of unquestioned strength.*

As credit transactions growing out of the production and sale of such articles form a basis for the issue of eligible paper, the Federal Reserve banks can be of great assistance to the member banks in the stimulation of necessary productive activities for which the Government itself is the principal customer, *and if every community, however small, will regard itself as a money market for the absorption of Government issues, the financing for 1918 can be contemplated with calmness and confidence.*

### Tax Payments by Notes

William C. Cornwell in the *Bache Review,* makes an important suggestion for alleviating the situation of the great army of business taxpayers who must on one day, June 15 next, pay in enormous amounts for yearly taxes, thus crippling their own and the general financial situation. He says:

"For instance, on sums due say of over $1,000 the Government could offer to receive one-third or one-quarter in cash and the remaining two-thirds or three-quarters in notes at two, three and four months bearing 4 per cent interest. These notes the Government could discount at the Federal banks as funds were needed, and could, in fact, discount them at a lower rate than 4 per cent, thus realizing a profit on the transaction. The notes would be probably as good when due as the makers might be on June 15; that is, this method of extending payments would have little attending risk. It would solve the problem of a dangerous money and credit collision at a concentrated point of time."

### Banking and Brokerage Opinions

**National City Bank of New York**—We have attempted before to show the difference between expansion and inflation in the banking situation. The former results from taking up the slack in industry, increasing the activity and production of all branches, and some degree of increase in wages and prices which is incidental thereto and unavoidable. The condition of scarcity and abnormal demand created by the war, and the reaction of foreign markets upon our own, would inevitably cause a rise of materials and labor even though inflation did not follow.


—*Financial America.*
A-MEND-MENT WANTED.

But it is almost impossible to tell where legitimate expansion runs into inflation, and this is the peril of the situation. To the individual employer who sees an insistent unsatisfied demand for his goods at profitable prices it looks like legitimate expansion to borrow money to increase his output, but if he only accomplishes his increase by drawing labor away from some other equally essential industry, the country has gained nothing and inflation has begun.

**Goodbody & Co.**—When broker's borrowings are at low tide, that is, when stocks are not being carried in brokerage houses, it is evident that stocks are in strong hands. At such times the technical condition of the market is said to be strong. Usually, when stocks are owned outright or are held by big men who carry them in their own banks, we are at or near the begining of a bull market.

Our guess now is that the very considerable upturn that we have had since December 27, when the President's railroad proclamation was issued, and the further advance as a result of the disintegrating process that has clearly begun in Austria-Hungary, Turkey and Germany, is but the beginning of a prolonged advance that may last one or two years. By this we do not mean that reactions will not occur, but we do mean that we do not expect to return to the low prices of last December, or even of last January, before we have average prices that will approximate, if they do not exceed, the highest prices of last year.

We make this prediction in spite of the numerous and important unfavorable factors that are in evidence. The biggest of these are:

1. The transportation congestion and closed mills, with thousands made idle;
2. The fuel, labor and food shortage;
3. The high cost of production;
4. The slump in business, as evidenced by the fact that bank clearings are only 6 per cent greater than were those of a year ago while prices are 30 per cent higher;
5. The expected $10,000,000,000 Government loans—which may never come, if Germany collapses soon;
6. The labor unrest and the coming rule of Bolshevikism, in the opinion of Mr. Schwab and others.

All of these bear factors are more or less in evidence, and have, therefore, been discounted in the stock market.

**Keane, Zayas & Potts**—If every man's foresight was as good as his hindsight the distribution of the country's wealth would be on a more equitable basis, for all would recognize opportunity when it appeared and presumably all would seek to profit by it. One way to make money out of stocks is to buy them when they are low and sell them when they are high. Opinion differs greatly as to the course prices will take after a long decline, and this difference makes the market. Those who have faith in the institutions of the country, who have knowledge of values and money and the courage of their convictions find in the stock market at this time their opportunity to lay the foundation of fortunes. Six months or a year hence millions of their fellows will be envying them and wondering how it was that they themselves let the chance to do the same thing get away undiscovered. And yet it is or should be obvious to every thinking man that actual values are being very severely discounted in the market quotations of securities.

**Hayden, Stone & Co.**—Marketwise, stocks have enjoyed an advance of 10 to 20 points and might be expected to pause for a period of rest, especially as we have arrived at the period between seasons when no fresh impetus is immediately in sight.

We should not be at all surprised, however, if the February reaction that so many have been predicting did not materialize. We still maintain that the underlying motive of the market this year will be the discounting of peace. So long as the prospects of this continue to improve, and recent economic developments would seem to be in this direction, the tendency, marketwise, should be toward regaining more normal levels.

While all stocks should share to a greater or less extent in this movement, naturally the ones that will be the safest and best to hold will be those that will have the most to gain by the actual coming of peace.

In making a selection from this standpoint, asset value and current earning power should, of course, be considered, but the touchstone, in our opinion, should be the earning power exhibited under former periods of competition, for to such conditions we must, of course, some day again revert.

**National City Bank of Chicago**—There has been sufficient recovery in security prices to indicate that the recent developments in connection with the railroads and the conduct of the war have helped sentiment. There is no indication, however, that the public is in the mood to engage in vigorous speculation. Reinvestment of the semi-annual dividends and interest payments has been going on quietly, although this movement has not been nearly as much of a factor in the investment situation as it usually is during the opening weeks of the year. There has been considerable purchasing of short term notes, some important offerings having been made by strong industrial corporations, who in this way have obtained money to meet their more urgent requirements. This accommodation has cost the borrowers, however, a sufficiently high rate to suggest that only urgent financing will be put through in this way. Discussion as to some means for regulating new security issues by the government, in connection with its effort to protect the market for necessary government loans, will probably lead to adequate legislation, modeled after similar measures adopted abroad.

## WALL STREET AT NIGHT

**Those who have seen the financial district only during business hours should make it a point to see it at night. During the day thousands and thousands of people are upon the streets and countless automobiles and business vehicles are moving to and fro, with all the attendant noise, but with nightfall, what a difference! Probably no part of the city has the deserted appearance of Wall Street at a late hour. Scarcely a soul is to be seen, and street traffic is nil. To walk through the streets gives one the impression that he is in a deserted city. —*Wall Street Journal.***

# Summary of the Railroad Bill

THE bill authorizing government control of the railroads has been revised four times. Its present form, as reported out by the Senate Interstate Commerce Committee, may be summarized as follows:

### Guaranty of Earnings

The President is authorized to agree with any railroad upon a "standard return" to be allowed the road while under government control. In case of failure to reach agreement with any road, the road is to receive 90 per cent of the estimated standard return and the balance, with 6 per cent interest, is to be paid when the amount due is legally decided by the Court of Claims.

This standard return is to be "at a rate equivalent as nearly as may be" to the average annual railway operating income for the three years ended June 30, 1917; but there is to be added to this an annual sum "at a rate of interest to be fixed by the President upon the cost of additions and improvements" made after the above period down to Dec. 31, 1917, less the retirements made in the six months from June 30 to Dec. 31. And in exceptional cases the President may fix the standard return at his discretion.

Moreover, the standard return is to be hereafter increased to cover a reasonable rate of interest upon further additions and improvements made by the road *out of its own funds* while under government control.

### Dividends

Dividends are not to be in excess of the regular rate that was paid during the above three year period, except by the prior approval of the President. The President may authorize dividends where no regular dividends were paid during the above period, or may increase dividends where recent additions or improvements were not fully reflected during that period.

### Rates

The President has authority to initiate freight and passenger rates, the Interstate Commerce Commission to serve as a court of appeal.

### Taxes

"War taxes" from Jan. 1, 1918, are to be deducted from the "standard return." All other taxes are to be paid of current income before the standard return is figured.

### The Revolving Fund

Revenues are to be received by the roads and to be expended by them, but net railway operating income in excess of the standard return is to be turned over to a "revolving fund" established by the government for the purpose of paying the expenses of government control, bringing income of any road up to the standard return where necessary, and providing terminals, rolling stock, improvements, etc. To this revolving fund the government adds $500,000,000 by appropriation.

The President may require any road to make whatever additions and improvements may be necessary, and may at his discretion advance money from the revolving fund for the purpose. He may also draw upon this fund for the "purchase, construction or utilization and operation of canals, boats, barges, tugs," etc., on "inland and coastwise waterways." This provision is so broad that the President could take over the Erie Canal, for example, and operate government-owned barges on it.

### Issue of Securities

Roads may issue securities under the approval of the President and the President may purchase them (not above par) and sell them (not below purchase price). He may use for this purpose any sums available from the revolving fund.

### Return to Private Ownership

The President is to "make all reasonable provisions for the maintenance, repair and renewals of the property, and for the creation of reserve funds therefor, and for the depreciation thereof, to the end that at the termination of such Federal control either the property shall be returned to the carrier in substantially as good repair and in substantially as complete equipment as at the beginning of Federal control, or that just payment shall be made therefor."

Federal control shall not continue longer than 18 months after the proclamation of peace. Before July 1, 1918, the President may relinquish control of any road not needed; or at any time he may agree with the owners for such relinquishment. Also he may relinquish control of all railroads together at any time he desires. Roads to have no compensation after relinquishment.

# How to Make Your Income Tax Return

## John Jones Makes His Return to Uncle Sam—How He Filled Out His Income Tax Blanks

By PHILIP N. RING

JOHN JONES had been prepared for the novel task of paying his Government an income tax by the commotion created back in September and October due to the drafting of the bill. It was now after January first, and he, in common with other good Americans, determined to make his return cheerfully and promptly. At other times a man might permit his property to depreciate in value somewhat between the time of his listing it with the agent and the call of the City Appraiser, but now is the time to stand in back of the Government and pay up faithfully. "No holding out this year," said Jones.

Jones went to the Collector of Internal Revenue and obtained two blanks—one for the Government and one as a matter of record for his files. This blank (1040A.) was marked for "net incomes of not more than $3,000," but it might be used if the net income exceeded that amount, but did not exceed one's personal exemption by more than $2,000, and it did not in any case exceed $5,000.

Jones was married and had one child under eighteen, and he found that this permitted him a personal exemption of $2,200—$2,000 for himself and wife and $200 for his child. He envied—for the moment, at least—his neighbor Smith, for Smith had five children, and was given an exemption of $3,000, i. e., $2,000 for himself and wife and $200 for each child. Dudley, a bachelor friend of his, on the other hand, was now to discover that wives and children were cash assets, for his income, with the exception of an exemption of $1,000, was subject to tax.

John took up his blank, ready to proceed.

### A.—Income from Salaries, Wages, Commissions, Bonuses and Pensions.

Jones was an accountant, in business for himself, but as the instructions called for the statement of wages or receipts totaling over $800 received from any one person or firm, he wrote: "John Jones, Accountant," and in the space for the name and address of his employer, he entered one firm, "Mutual Fuel Co., 46 May Street, New York City," from which he received more than the amount specified. In the column at the right the sum of $1,200 was entered as this was the retainer he received for keeping an eye on the Fuel Company's accounts.

### B.—Income from Business, Farm or Profession.

Jones owned no farm, but the gross receipts from his business, other than that received from the Mutual Fuel Co., amounted to $3,500. From this he deducted $1,180 as the salaries of his stenographer and office boy, $50 for materials and supplies and $240 for office rent. These left him with a net profit from his business, of $2,030. He had had some bad debts but could not charge these off as they had not been entered as income. (Had Jones quoted as his gross income from business the total of all bills sent out, it would have been permissible for him to deduct from this gross such sums as had not been paid by the first of the year.) Similarly, he could not deduct any salary for himself or any of his family without crediting this as income elsewhere, which would have been driving in a circle.

### C.—Profit from Sale of Land, Buildings and Other Property.

Jones had taken a "little flier in the market" in the preceding year, and had derived a nice profit of $450 from the venture. He thought of Smith who had dabbled with much enthusiasm but very poor luck, and figured that Smith would probably escape all tax, for, after the deduction of his market losses, his "net" would look pretty small. He found, however, that a deduction for any loss from the sale of stock or other property would not be permitted *unless such transaction formed a part of the claimant's regular business.*

Mrs. Jones owned a house and a building lot, and as Jones and she had deter-

mined to make out a joint statement rather than separate ones, Jones now entered the cost and selling prices of Mrs. Jones' building lot. The profit from this deal amounted to $200, and this figure went into the right-hand column along with his own profit from "Steel."

**D.—Income from Rents and Royalties.**

Jones owned no "farms, dwellings, mines, etc.," but Mrs. Jones owned a house. This was a dwelling—brick. Mr. Jones did not know what it had cost, as it had been left to the "Missus" some time before, but a fair valuation was $8,000. The house

(SEE INSTRUCTIONS ON PAGE 2 IN CORRESPONDING BLOCKS) **DETAILS OF TAXABLE INCOME** (including income of wife (or husband) and dependent children if not reported on separate returns) Page 3

WRITE "NONE" IN EACH BLOCK IN WHICH YOU HAVE NO INCOME TO REPORT.

**A. INCOME FROM SALARIES, WAGES, COMMISSIONS, BONUSES, AND PENSIONS.**

| (By whom received.) | (Occupation.) | (Name and address of employer.) | | |
|---|---|---|---|---|
| John Jones | Accountant | Mutual Fuel Co. | $1 | 200 |
| | | 46 May St., N. Y. C. | | |
| Total | | | $1 | 200 |

**B. INCOME FROM BUSINESS, FARM, OR PROFESSION.**

Kind of business, etc.: Public Accountant Business address: 76 Oak St., N. Y. C.

| | | | | |
|---|---|---|---|---|
| Total cash received from sale of merchandise, farm products, or professional or business services | $3 | 500 | | |
| Less expenses paid and losses: | | | | |
| Labor $1160 — Merchandise or live stock bought for sale $ -- | | | | |
| Materials and supplies $ 50 — Wear, tear, and repairs $ -- | | | | |
| Rent $ 240 — Losses by fire, storm, other casualties, or theft $ -- | | | | |
| Other expenses None (Mention principal items.) $ -- | | | | |
| Total expenses and losses | $1 | 470 | | |
| Net income from business, farm, or profession (total cash received minus total expenses and losses) | | | $2 | 030 |

[Business or farm property (if owned): Construction of buildings ........ Cost of buildings, $ ........ Cost of business equipment, $ ........]

**C. PROFIT FROM SALE OF LAND, BUILDINGS, AND OTHER PROPERTY, REAL OR PERSONAL.**

| 1. Kind of property. (See instructions on page 2.) | 2. Year acquired. | 3. Sale price. | 4. Cost. | |
|---|---|---|---|---|
| Stocks | 1917 | $5 100 | $4 650 | |
| Building lot | 1913 | 400 | 200 | |
| Total profit (total of column 3 minus total of column 4) | | 5 500 | $4 850 | $ 650 |

**D. INCOME FROM RENTS AND ROYALTIES.**

| 1. Kind of property. (See instructions on page 2.) | 2. Cost of buildings. | 3. Cash or equivalent received. | 4. Wear, tear, and repairs. | 5. Other expenses and losses. | |
|---|---|---|---|---|---|
| Dwelling (brick) | $8 000 | $ 600 | $ 200 | $ 25 | |
| Total net income from rents and royalties (total of column 3 minus totals of columns 4 and 5) | | $ 600 | $ 200 | $ 25 | $ 375 |

**E. OTHER INCOME.** (State each source separately.)

| | 1. Cash received. | 2. Expenses paid. | |
|---|---|---|---|
| $2000 in Savings Bank at 4 | $ 80 | $ | |
| Net total (total of column 1 minus total of column 2) | $ 80 | $ | $ 80 |

**F. Total net income from above sources** ........ $

**G. GENERAL DEDUCTIONS NOT INCLUDED ABOVE.** (See instructions on page 2.)

| | | | |
|---|---|---|---|
| Interest paid on indebtedness — Note $1500 interest at 6% | $ 90 | | |
| Taxes paid — On dwelling | 20 | | |
| Other deductions, if any, except contributions (explain) | | | |
| Total | 110 | $ | 110 |

[Contributions Red Cross Y. M. C. A. ] (State here names of organizations to which made. Enter amount on lines 12 and 15, page 4.)

**H. Total net income from above sources minus general deductions except contributions (F minus G)** ........ $4 225

rented for $600, but a deduction for "wear, tear and repairs" was allowed, provided this depreciation was not offset by "repairs." The house was kept in good repair, $200 having been so expended that year, and Jones considered that the expenditure of such a sum covered the year's depreciation. Under "other losses" Jones put down $25 as the amount of the insurance premiums. This left a net profit of $375 from the rent of the house.

Page 4

**CAUTION**

Read all instructions.
Answer all questions.
If necessary, ask your Collector of Internal Revenue for assistance.

Form 1040A.—UNITED STATES INTERNAL REVENUE.

**INDIVIDUAL INCOME TAX RETURN FOR CALENDAR YEAR 1917**
**FOR NET INCOMES OF NOT MORE THAN $3,000.**

(Do not write in this space.)
RECEIVED

LIST

| Month | Page | Line |
|---|---|---|
| | | |

Audited by

*Made by (or for)* John Jones.
(Write plainly. Give name in full.)

*Home address* 422 Eastern Avenue,
(Street and number or rural route.)

Woodside, New York.
(Post office and State.)

1. Did you make a return for 1916? No — If so, what address did you give on the return? — To what collector's office was it sent? — (Give district or city and state.)
2. Were you on December 31, 1917, married and living with wife (or husband)? Yes — If not, were you head of a family as defined in instructions on page 1, under "Personal exemption"?
3. How many dependent children under 18 (or mentally or physically incapacitated for self-support) had you on December 31, 1917? One — If head of a family without dependent children, what was the relationship of those dependent upon you? —
4. Did your wife (or husband) or dependent children derive income from sources independent of your own? Yes — If so, is such income included in this return? Yes — If not, was such income from a separate estate? —
5. If a separate return has been made by (or for) wife (or husband) or dependent child, give full name and address entered at head of that return. —
6. If income of $800 or more received by wife (or husband), or dependent child is included in this return, give full name of each such person and also address, if different from that given at the head of this return.
Mrs. John Jones.
7. What addresses other than those already entered on this return did you give to employers or other persons, firms, or corporations who paid you $800 or more income during 1917?
None

**CALCULATION OF NET INCOME.**

| | | | | |
|---|---|---|---|---|
| 8. **Net Income Shown on Page 3** (Item H) | $ | 4 | 225 | |
| 9. **Add** interest received, if any, on bonds of corporations that have agreed (by a "tax-free-covenant" clause in the bond) to relieve you of income tax on such interest (including such interest received through fiduciaries) | | | 200 | |
| 10. **Add** dividends received, if any, on capital stock of corporations organized or doing business in the United States and subject to income tax (including dividends paid in stock and dividends received through partnerships or fiduciaries) | | | 400 | |
| 11. **Total** | $ | 4 | 825 | |
| 12. **Less Contributions** (not over 15 per cent of total on line 11 above—see instructions at bottom of page 2) | | | 75 | |
| 13. **Total Net Income** (see instructions on page 1, under "When to use the larger form") | $ | 4 | 750 | |

**CALCULATION OF TAX DUE.**

| | | | | |
|---|---|---|---|---|
| 14. **Net Income Shown on Page 3** (Item H) | $ | 4 | 225 | |
| 15. **Less Contributions** (see line 12 above) | | | 75 | |
| 16. **Balance of Net Income** | $ | 4 | 150 | |
| 17. **Less Personal Exemption** (see instructions on page 1, under "Personal Exemption") | | 2 | 200 | |
| 18. **Balance** (Income taxable at 2% under War Revenue Act) | $ | 1 | 950 | |
| 19. **Tax Due** (2% of above amount) | $ | | 39 | 00 |

**AFFIDAVIT TO BE EXECUTED BY INDIVIDUAL OR AGENT MAKING THIS RETURN.**

I swear (or affirm) that this return, to the best of my knowledge and belief, is a true and complete statement of all taxable gains, profits, and income received by Me (Enter "me" or name of person for whom return is made.) during the year 1917, and that I am (Enter "I am," "he is," or "she is.") entitled to all deductions and exemptions entered or claimed herein.

Sworn to and subscribed before me this 25th day of January, 1918.

John Jones.
(Signature of taxpayer or agent.)

(Signature.) (Address of agent.)

(Title.) (State reason why return is made by agent.)

## E.—Other Income.

Under this head, interest received on bank deposits, notes, mortgages, etc., was

called for. Mrs. Jones had $2,000 in the bank drawing 4 per cent interest, and so the amount of this, $80, was entered. Mrs. Jones had received a legacy of $500 on the death of a relative during the year, and Jones was about to enter this on the blank when he saw that proceeds of life insurance policies, gifts and legacies was not considered as income.

There was now a line "F," marked, "Total net income from above sources." Jones added the "above sources," and found that he and his wife had received a net income of $4,335 for the year.

**G.—General Deductions Not Otherwise Included.**

Having a note obligation of $1,500 on which he was paying 6 per cent interest, Jones entered this. Mrs. Jones paid $20 in taxes on her house, and this, with the interest on the note, made a total deduction of $110.

The Joneses, with some of their neighbors, had contributed to the Red Cross and the Y. M. C. A., and under this heading of general deduction the names of these societies or any others were required. The amounts given were to be entered on lines 12 and 15 of page four.

These various sums were footed up, and their total entered at the bottom of the page. This completed page three, pages one and two having been given over to instructions.

Page four called for John's home address. The questions 1, 2 and 3, as to whether or not Jones had made a report the year before; whether or not he was married and had any children were quickly answered. Number 4 called for information as to whether any of the members of his family had received income from sources independent of his own. As entries on the preceding pages showed wherein his wife had, his answer was "Yes." As to whether or not he and his wife were making a joint return, he also answered "Yes." Number 6 required the name and address of any of his family who had received an income of $800 or more during the year. John entered the name of Mrs. John Jones here. As none of Jones's clients other than the Mutual Fuel Company had paid him more than $800, question 7 answered itself.

**Calculation of Net Income.**

After entering the amount of his net income as shown at the bottom of page three, Mr. Jones came upon a line for the entry of the interest received from bonds in his possession that had a "tax free" covenant clause. He owned some Armour 4½ per cent. bonds, the interest on which amounted to $200; he also owned 50 shares of American Telephone & Telegraph stock, which was a "corporation doing business in the United States and subject to the income tax." This made a total net revenue of $4,825. The amount given to charitable organizations was now entered and Jones found his $50 to the Red Cross and $25 to the Y. M. C. A. was well within the maximum amount permitted for deduction, i. e., 15 per cent. of the net income.

**Calculation of Tax Due.**

The first line under this heading once more called for the net income as reported at the bottom of page three, the $600 he had received from his stock and bonds not being taxable, due apparently to the fact that the amount due was reported and paid to the Government by the corporations themselves. The contributions were subtracted from the amount of the net income and next his personal exemption of $2,200 (permitted on the fact of his having a wife and child). The balance, taxable at 2 per cent., was the amount John Jones was to pay Uncle Sam to "help win the war."

Jones looked over the blank for incomes over $5,000, but found that in the main it was the same as his own. Greater detail was given in reporting, and as incomes over $5,000 were subject to various super-taxes, depending upon the amount, a table was appended to assist in working these out.

## THE HIGH COST OF EATING

**The president of a prominent financial institution had been too busy to go out for lunch, and sent a messenger for a couple of plain sandwiches. They were brought to him with an expense slip for 70 cents. It was only a few months ago that the executive raised all salaries to meet the higher costs of living, but as he consumed his frugal lunch he began to wonder if the time had not arrived for another upward revision.**

# BONDS AND INVESTMENTS

## Sugar Preferreds as Investments

**BUSINESS AND FINANCE SERIES No. VII—PART 2**

### Earnings, Margins of Safety—Assets Behind the Securities—War Profits—How These Stocks Should Be Bought

**By JAMES V. TERHUNE**

NOT so very many months ago the writer discussed the position of the leading sugar stocks in these columns and made a study of the leading sugar stocks which are traded in on the New York Stock Exchange. I believe that my conclusion in regard to those issues will bear repetition at this time:

> "While the earnings of the last two years have placed the sugar stocks in an intrinsically stronger position, the investor must not lose sight of the fact that the present market is one which takes little account of 'values.' It is wholly a matter of supply and demand, for the moment at least, and stocks are in greater supply than demand. No one knows what Governmental step will be next taken to further reduce earnings and consequently values. Looking at the sugar stocks from a strictly technical angle one perceives that they have undergone a long period of distribution. If historical precedent counts for anything, it teaches that nine times out of ten such periods are followed by declines, the severity of which is gauged by the volume of distribution in the distribution period. It would therefore appear that sugar stocks do not offer attractive investment or speculative prospects at this writing."

Since the foregoing was written the sugar issues have declined with the rest of the market and have come back on the recent rally, which as this is written seems to have about expended its momentum. So that as far as the common stocks are concerned the above applies as well now as when it was first written. The reader has probably noted that I qualified that statement by saying "common stocks." The reason for that is that there have been two very important developments in the last few months. The first has been the cessation of the liquidation of high-grade investment issues, and the second the murmurings and mutterings of peace which fill the world and promise to crystallize into action. So long as gilt-edged bonds and choice investment issues were being thrust upon the market it was obviously unwise to make investment or speculative commitments. But when the average of security prices had been reduced to the lowest in years and widespread liquidation ceased, and when the prospect of peace began to bring the "bargain-hunters" to the investment markets, it is time for the shrewd buyer of securities to look around and see what may be seen.

The point of the whole matter is that we know that good securities are cheap now and should be bought before peace materializes and the opportunity is lost.

#### American Sugar Preferred

American Sugar Refining because of its seniority and long established earning power is naturally the first to be considered. The company has an issue of $45,000,000 preferred stock par $100, all of which is outstanding. This issue is cumulative and entitled only to 7% of each year's profits. It has no voting power and has no preference over the common stock as to assets. In spite of the last and rather unusual limitation, American Sugar preferred has long been rated as a very high-grade investment issue. Since the organization of company in 1891, when it succeeded the Sugar Refineries Co., known as the "Sugar Trust," the American Sugar Refining preferred stock has paid its 7% dividends year in and year out. This record extending over more than a quarter of a decade—27 years to be exact—would seem to establish the security of the preferred dividends beyond any reasonable doubt. An idea of the margin of safety shown by earnings

over dividend requirements is given by the following tabulation:

| Year | Earned | Paid | Year | Earned | Paid |
|---|---|---|---|---|---|
| 1907.. | 19.4% | 7% | 1912.. | 12.2% | 7% |
| 1908.. | 14.4 | 7 | 1913.. | 6.4 | 7 |
| 1909.. | 19.0 | 7 | 1914.. | 9.9 | 7 |
| 1910.. | 10.9 | 7 | 1915.. | 11.9 | 7 |
| 1911.. | 22.6 | 7 | 1916.. | 25.4 | 7 |

The foregoing shows that with the exception of one year, 1913, the company earned the preferred dividend and usually with a wide margin to spare. Over a period of ten years American earned an aggregate of net profits available for dividends of $68,624,765 or an annual average of $6,-862,477. The total on the preferred is equivalent to 152.50% or an annual average of 15.25%. In other words, the company has earned its preferred twice over on average with some to spare. Earnings on the common stock in the decade were the equivalent of 82.50% or an annual average of 8.25%. On December 31, 1916, the net assets applicable to the common stock totaled $72,348,712 or $161 per share.

Earnings by the company for the year just ended are placed by some authorities as high as $25 per share on the common after all taxes, including the war levies which would mean that last year was the best the company has ever experienced.

American Sugar has always followed the plan of keeping itself in a very strong liquid assets position, a policy the wisdom of which was shown in the trying period when the company was under fire from the Department of Justice. When last reported, December 31, 1916, the company had $28,511,000 of current assets, of which nearly $23,000,000 was in the form of cash. Current liabilities totaled only $8,155,000. This gave the company a working capital of about $40,000,000.

While 111 may seem a pretty stiff price to pay for a 7% preferred stock in these times, it should be remembered that he who buys the stock now should buy it to keep and that owing to its long investment record the issue, like Steel preferred, has a much higher market range than the average industrial preferred issue. In the last 16 years the stock has not sold lower than 105 and during that time it has been as high as 140.

### American Beet Sugar

American Beet Sugar is another company whose preferred stock is entitled to a high investment rating. Although considerably younger than American Sugar refining and without the excessively solid financial buttressing of the former company, American Beet Sugar has shown a very sturdy growth and has paid its preferred dividends regularly since the company's incorporation in 1899. Its growth is shown in the following tabulation for the last decade: (Years ended March 31.)

| | Gross Sugar Sales | Net Income |
|---|---|---|
| *1908 | $5,749,596 | $882,361 |
| *1909 | 7,135,326 | 1,293,142 |
| *1910 | 6,983,772 | 1,397,252 |
| *1911 | 8,344,792 | 1,290,295 |
| *1912 | 8,932,943 | 1,568,601 |
| 1913 | 6,217,746 | 881,055 |
| 1914 | 8,083,696 | 452,074 |
| 1915 | 8,304,423 | 1,424,654 |
| 1916 | 10,479,293 | 2,445,189 |
| 1917 | 14,971,116 | 4,882,980 |

*Receipts from operations.

In common with the other sugar companies the war has proved a bonanaza to American Beet Sugar, as shown by the results for the last two years. The company has $5,000,000 6% non-cumulative preferred stock authorized and outstanding. The issue is preferred as to assets and dividends and cannot be retired by the company. Earnings for the last ten years on the preferred and the margin of safety for the preferred dividends, are indicated by the following tabulation:

| Year | Earned on Pfd. | Pfd. Divs. |
|---|---|---|
| 1908 | 17.6% | 6% |
| 1909 | 25.8 | 6 |
| 1910 | 27.9 | 6 |
| 1911 | 15.8 | 6 |
| 1912 | 31.3 | 6 |
| 1913 | 17.6 | 6 |
| 1914 | 9.0 | 6 |
| 1915 | 28.4 | 6 |
| 1916 | 48.9 | 6 |
| 1917 | 97.6 | 6 |

Last year's balance on the preferred was just short of 100% on the outstanding stock. During the last decade the company has earned total net profits available for dividends aggregating $16,517,-603, or at the rate of $1,651,700 per annum. The aggregate earnings are equal to

342.95% or an average of 34.30% per annum on the senior issue. During the same time the company has earned 90.86% on the common stock or an average of 9.09% per annum. According to the annual report for the year ended March 31 last, the net tangible assets applicable to the common stock totaled $4,794,661 or $32 per share. This figure is arrived at after deducting all current liabilities, retiring the preferred stock at par and making a deduction of $15,000,000 on account of the common stock, which it is assumed was originally issued for "good will" and is not represented by tangible assets.

At the time of the last annual report the company had current assets totaling $8,670,000 and quick liabilities of $2,090,000, giving it a net working capital of $6,579,271, which was 44% of the gross sales for 1916-17.

There is not a great deal of market activity in the preferred stock as most of it is in investors' hands. At this writing it has a wide quotation of 80 bid and 92 asked. At 86 the stock yields approximately 7%. Last year the preferred sold as high as 102.

### South Porto Rico Sugar Co.

This company is another which was projected prominently into public notice by the effects of the war on its business. As a producer of raw sugar it profited tremendously, showing nearly 75% on the preferred stock and 63½% on the common stock for 1916.

There is $4,000,000 8% cumulative preferred stock, par $100, of which $3,984,000 is outstanding. This issue is preferred as to assets as well as dividends. Having retired its 6% bonds the company has no mortgage or funded debt.

South Porto Rico Sugar was incorporated in 1900 and, as its title indicates, has holdings of extensive sugar plantations in Porto Rico. In 1916 the company produced 92,342 tons of sugar as compared with 61,500 tons in 1911. The 1916 output was the largest the company ever made.

Since incorporation South Porto Rico has paid its 8% on the preferred regularly which gives it a 17 years unbroken preferred dividend record. Earnings on the preferred together with the margin of safety of the senior dividend, are indicated by the following tabulation: (Years ended September 30.)

| Year | Earned | Paid | Year | Earned | Paid |
|---|---|---|---|---|---|
| 1909.. | 26.7% | 8% | 1914.. | 10.2% | 8% |
| 1910.. | 24.8 | 8 | 1915.. | 45.2 | 8 |
| 1911.. | 24.6 | 8 | 1916.. | 74.7 | 8 |
| 1912.. | 29.7 | 8 | 1917.. | *32.0 | 8 |
| 1913.. | 13.3 | 8 | | | |

*Earned on average stock outstanding after deducting reserve for working capital ($600,000) and reserve for income and profits taxes.

Summarizing the company's earnings for the last nine years we find that during that period it earned a net total available for dividends of approximately $10,000,000 or $1,108,000 annually. This is equivalent to 278.4% on the preferred stock or just a little less than 31% annually. The balance for the common was equal to 213.6% or 23.7% per annum. Figured as of September 30, 1917, the common had net tangible assets behind which gave it a book value of $207 per share.

At 105 the preferred stock yields 7.6% which is somewhat better than the yields on either of the two sugar preferred stocks previously mentioned. In comparison with the earnings and financial positions of either American Sugar Refining or American Beet Sugar the South Porto Rico Sugar Co. has nothing to fear. The preferred stock is closely held and its relatively lower price is probably owing to the fact that the company's possessions are so far away. A peculiarity of the American investor is that he chooses to put his money into companies which are "at home," but the broadening effects of developments in the last few years is gradually dispelling that provincial attitude. The preferred stock of this company sold as high as 120 in 1916 and as low as 75 in 1915.

### Cuban-American Sugar

Of all the listed sugar companies perhaps this corporation profited most in the height of the war-boom in the sugars. In 1916 the company earned 104.3% on its preferred stock and 107.6% on its common stock. Nevertheless, over a period of years the company has experienced more ups and downs than the other three companies mentioned in this article. For instance, it failed to earn the preferred dividends in 1911 and again in 1913.

Balances for the preferred for the last

eight years were shown as following:

| Year | Earned | Paid | Year | Earned | Paid |
|---|---|---|---|---|---|
| *1909.. | 21.3% | 1¾% | 1914.. | 34.2% | 7% |
| *1910.. | 28.2 | 8¾ | 1915.. | 70.8 | 7 |
| 1911.. | 3.4 | 7 | 1916.. | 104.3 | 7 |
| 1912.. | 11.0 | 7 | 1917.. | 87.3 | 7 |
| 1913.. | 4.5 | 7 | | | |

*Based on $6,295,000 preferred stock outstanding.

During the last nine years the company has earned a net available for dividends of $28,000,000, in round figures, or at the average annual rate of $3,326,000. This is equivalent to 267.7% on the preferred stock of an average annual rate of nearly 41%. While this showing is impressive, it must be remembered that the high average of these earnings is chiefly the result of "war earnings." In the five years immediately preceding the war period, the company earned 68% on its preferred stock, or an annual average rate of 13.6%. These statements are merely relative, however. Cuban-American Sugar has so strengthened its position through the earnings of the last three or four years that its preferred stock is entitled to an excellent rating among issues of that class. Its preferred dividend should be secure against anything short of a calamity.

Cuba Cane Sugar preferred is not discussed in detail in this article for the reason that it is not an issue sufficiently seasoned to warrant its classification with the securities before mentioned. The company has a very large preferred issue of $50,000,000, all of which is outstanding. At the time the company was formed it was understood that the 500,000 shares of common stock which are outstanding, were to a very large extent "water." With a continuance of favoring markets the company should be able to strengthen its financial position but at the present time it is not entitled to rank among the first grade of industrial preferred issues.

## A WAR MAP OF THE UNITED STATES FOR 1918

# BOND BUYER'S GUIDE

## A Classification of Listed Bonds

### Arranged by F. M. Van Wicklen

THE following table includes most of the *active* bonds listed on the New York Stock Exchange. An endeavor has been made to arrange these bonds in the order of their desirability as investments, based upon a combination of two factors, namely, security of principal and income return.

In many cases it is difficult to determine whether a certain bond should be rated above or below another, and in this respect the investor who has uppermost in mind security of principal will no doubt differ as to classification, with one who is concerned primarily with the amount of the income received from the investment, and *vice versa.* The arrangement below, however, attempts to balance these two factors.

### FOREIGN GOVERNMENT BONDS

| | Approximate price | Yield about, per cent. |
|---|---|---|
| French Govt. 5½s, April, 1919 | 97⅛ | 8.25% |
| U. K. Gt. Brit. & I. 5½s, Feb., 1919 | 99¼ | 6.30 |
| U. K. Gt. Brit. & I. 5½s, Nov., 1919 | 97⅛ | 7.75 |
| U. K. Gt. Brit. & I. 5s, Sept., 1918 | 98¾ | 7.50 |
| U. K. Gt. Brit. & I. 5½s, Nov., 1921 | 94⅝ | 7.20 |
| Anglo-French 5s, Oct. 15, 1920 | 89¾ | 9.40 |
| Am. For. Sec. 5s, Aug., 1919 | 97 | 7.05 |
| Dom. Canada 5s, April, 1921 | 95 | 6.60 |
| Dom. Canada 5s, April, 1926 | 92½ | 6.20 |
| Dom. Canada 5s, April, 1931 | 93 | 5.80 |
| French Cities 6s, Nov., 1919 | 88 | 13.85 |
| Paris 6s, Oct. 15, 1921 | 87¼ | 10.00 |
| Japanese, 2d Series, Germ. Stpd. 4½s, July 10, 1925 | 80¼ | 8.00 |

### RAILROAD BONDS LEGAL FOR NEW YORK STATE SAVINGS BANKS

| | | |
|---|---|---|
| ***First Grade:*** | | |
| C. Burl. & Q., Ill. 3½s, 1949 | 75½ | 5.10% |
| N. Y. Cent. 1st 3½s, 1997 | 71½ | 4.90 |
| Lake Shore 1st 3½s, 1997 | 73 | 4.80 |
| C. & North West. Gen. 4s, 1987 | 84½ | 4.75 |
| Nor. Pacific p. l. 4s, 1997 | 84½ | 4.75 |
| Union Pacific 1st 4s, 1947 | 88 | 4.75 |
| Pennsylvania Consol. 4½s, 1960 | 98½ | 4.60 |
| Norf. & West. Cons. 4s, 1996 | 84 | 4.75 |
| Atch. T. & S. Fe Gen. 4s, 1995 | 85 | 4.70 |
| So. Pac. Ref. 4s, 1955 | 82½ | 5.05 |
| Lou. & Nash. Unified 4s, 1940 | 87 | 4.90 |
| At. Coast Line Cons. 4s, 1952 | 83¾ | 5.00 |
| C. M. & St. Paul Gen. 4½s, 1989 | 85 | 5.30 |
| Pennsylvania Gen. 4½s, 1965 | 89¾ | 5.10 |
| Union Pacific Ref. 4s, 2008 | 78½ | 5.10 |
| C. Burl. & Q. Gen. 4s, 1958 | 84½ | 4.90 |
| M. St. P. & S. S. Marie Cons. 4s, 1938 | 85½ | 5.15 |
| Illinois Cent. Ref. 4s, 1955 | 82½ | 5.05 |
| Balt. & Ohio p. l. 3½s, 1925 | 87½ | 5.60 |
| Balt. & Ohio 1/4s, 1948 | 78 | 5.50 |
| Nor. Pacific Gen. 3s, 2047 | 60½ | 5.00 |
| Gt. Northern 4¼s, 1961 | 89½ | 4.85 |
| ***Second Grade:*** | | |
| C. M. & St. Paul Conv. 4½s, 1932 | 74½ | 7.35% |
| Balt. & Ohio Conv. 4½s, 1933 | 78¼ | 6.75 |
| C. M. & St. Paul Ref. 4½s, 2014 | 69 | 6.50 |
| C. M. & St. Paul Conv. 5s, 2014 | 79 | 6.30 |
| Balt. & Ohio Ref. 5s, 1995 | 81¾ | 6.15 |
| N. Y. Cent. Ref. 4½s, 2013 | 82 | 5.50 |

## RAILROAD BONDS NOT LEGAL FOR NEW YORK STATE SAVINGS BANKS

| | | |
|---|---|---|
| ***First Grade:*** | | |
| C. Burl. & Q. Joint 4s, 1921 | 93⅞ | 6.00% |
| Col. & So. 1/4s, 1929 | 83⅞ | 6.00 |
| Oregon Sh. Line Ref. 4s, 1929 | 83½ | 6.00 |
| Southern Ry. Cons. 5s, 1995 | 92¾ | 5.40 |
| At. Coast L., L. & N. Coll. 4s, 1952 | 73 | 5.85 |
| Lake Shore Deb. 4s, 1928 | 86½ | 5.75 |
| Union Pacific Conv. 4s, 1927 | 86½ | 5.85 |
| Kans. C. So. 1/3s, 1950 | 60 | 5.75 |
| Seaboard A. L. 1/4s, 1950 | 72 | 6.00 |
| N. Y. Cent. L. S. Coll. 3½s, 1998 | 64¼ | 5.50 |
| N. Y. Connecting 4½s, 1953 | 86 | 5.40 |
| Virginian Ry. 1/5s, 1962 | 91½ | 5.50 |
| Cent. Pac. Ref. 4s, 1949 | 81 | 5.25 |
| C. Rock I. & Pac. Gen. 4s, 1988 | 77 | 5.25 |
| Atch. T. & S. Fe Conv. 4s, 1960 | 85 | 4.85 |
| Reading Gen. 4s, 1997 | 84½ | 4.75 |
| ***Second Grade:*** | | |
| So. Pac. Conv. 4s, 1929 | 77¾ | 6.85% |
| So. Pac. Conv. 5s, 1934 | 89 | 6.10 |
| St. L.-San Fran. p. l. 4s, 1950 | 59⅝ | 7.25 |
| Ches. & Ohio Conv. 5s, 1946 | 77½ | 6.80 |
| Col. & So. Ref. 4½s, 1935 | 69½ | 7.75 |
| Kans. C. So. Ref. 5s, 1950 | 75⅝ | 7.25 |
| C. Rock I. & Pac. Ref. 4s, 1934 | 66¾ | 7.60 |
| Ches. & Ohio Conv. 4½s, 1930 | 69½ | 8.50 |
| N. Y. Cent. Conv. 6s, 1935 | 93½ | 6.60 |
| Erie Cons. 4s, 1996 | 68⅞ | 5.85 |
| C. M. & St. Paul 4s, 1925 | 77½ | 8.00 |
| Pere Marquette 5s, 1956 | 81 | 6.35 |
| Den. & R. Grande Cons. 4s, 1936 | 65 | 7.50 |
| Mo. Pac. Gen. 4s, 1975 | 58¾ | 6.90 |
| C. C. C. & St. Louis Gen. 4s, 1993 | 61 | 6.60 |
| St. L. So. West. 1/4s, 1989 | 68 | 6.00 |
| Erie Gen. 4s, 1996 | 52¾ | 7.85 |
| Southern Ry. Dev. 4s, 1956 | 60¼ | 7.00 |
| Erie Conv. 4s, "D," 1953 | 51 | 8.35 |
| West. Md. 1/4s, 1952 | 60½ | 7.05 |
| Chic. Gt. West. 1/4s, 1959 | 58 | 7.20 |

## INDUSTRIAL BONDS

| | | |
|---|---|---|
| Western Electric 1/5s, 1922 | 97 | 5.75% |
| Central Leather 1/5s, 1925 | 96¼ | 5.60 |
| Nat. Tube 1/5s, 1952 | 93 | 5.45 |
| Beth. Steel Ref. 5s, 1942 | 87½ | 6.00 |
| Lackawanna Steel Cons. 5s, 1950 | 90 | 5.70 |
| Inter. Mer. Mar. 1/6s, 1941 | 93¾ | 6.50 |
| Am. Smelt. & Rfg. 1/5s, 1947 | 88½ | 5.80 |
| Indiana Steel 1/5s, 1952 | 96¼ | 5.25 |
| U. S. Steel s. f. 5s, 1963 | 99¼ | 5.05 |
| Rep. I. & Steel 5s, 1940 | 97½ | 5.15 |
| Gen. Elec. Deb. 5s, 1952 | 97 | 5.20 |
| U. S. Rubber Ref. 5s, 1947 | 79½ | 6.60 |
| Am. Agri. Chem. Conv. 5s, 1924 | 93½ | 6.25 |
| Wilson & Co. 1/6s, 1941 | 95¼ | 6.40 |
| Va. Car. Chem. 1/5s, 1923 | 94 | 6.25 |
| Chile Copper Conv. 7s, 1923 | 107¼ | 5.50 |

## PUBLIC UTILITY BONDS

| | | |
|---|---|---|
| Am. Tel. & Tel. Coll. 4s, 1929 | 82 | 6.20% |
| Consol. Gas N. Y. Conv. 6s, 1920 | 100¾ | 5.65 |
| Int. Rap. Tran. Ref. 5s, 1966 | 84 | 6.00 |
| N. Y. Telephone Gen. 4½s, 1939 | 87 | 5.55 |
| Am. Tel. & Tel. Coll. 5s, 1946 | 95 | 5.35 |
| Public Service Corp. N. J. 5s, 1959 | 76 | 6.75 |
| Int.-Met. Coll. 4½s, 1956 | 55½ | 8.50 |
| B. R. T. 5s, July, 1918 | 96¼ | 15.50 |

# Readers' Round Table

**[Subscribers are invited to contribute to the Readers' Round Table Department. From our readers we receive many valuable suggestions and interesting ideas, and have inaugurated this feature in order that they may present their problems and their thoughts to their fellow-readers. We believe that this interchange of ideas will prove to the advantage of all. Send in your manuscript addressed to Editor, Readers' Round Table. No names will be used unless permission is given.—*Editor.*]**

NEW YORK, January 25, 1918.

*Editor,* MAGAZINE OF WALL STREET:

Dear Sir—I note in the January 5, 1918, edition of the MAGAZINE OF WALL STREET a letter by "Saxon," entitled "Valuing a Mining Stock."

"Saxon" sets forth an analysis appearing in Pickering's book entitled "Engineering Analysis of a Mining Share," showing the present value of Utah Copper shares, and concludes therefrom that if Utah stock should sink to $45 or $40, an investor with the analysis of Utah before him would know that the stock at the panic price was a genuine bargain. There can, of course, be no question that Utah would be a genuine bargain at the above figure. "Saxon" does not mention in citing Pickering's tabulation that Utah's production at the time the figures were computed was at the rate of approximately 150,000,000 pounds per annum, whereas the production of Utah in 1917 was over 200,000,000 pounds, and additional equipment in course of installation at the present time will produce a further substantial increase. With this increase in rate of production the amortized value of the shares of course, also increases.

In August, 1914, soon after the closing of the New York Stock Exchange, and at a time when Utah was producing at the rate of approximately 120,000,000 pounds of copper per annum, the price of Utah shares was fixed by the Stock Exchange at $46. It should be noted that it took a World's War to make the shares sell at this price. If "Saxon" is willing to wait for world wars before he invests his money, no doubt he can secure stocks at very low prices, but by so waiting he will have to figure the interest which he loses between war periods by having his money in the bank. Also, if everyone followed this procedure, needless to say industry would be much hampered because mining companies would have to pay excessive rates for capital if the public became interested only during periods of panic.

"Saxon" favors assuming that 60 per cent. of the earnings of a mining company applied to dividends is a conservative figure on which to base a valuation. There can be no question that this figure is a conservative one. It would have been still more conservative had "Saxon" assumed 40 per cent. In valuing a security—especially one representing a comparatively new and growing property which has not yet completed its program of construction—it should not be overlooked that such part of its earnings not paid in dividends is devoted to some purpose, and this purpose makes for an increased rate of earnings. The money will be found in the treasury, is consumed as working capital, is invested in securities of other companies, or it may be set aside in surplus, so that dividends may be maintained during periods of duress when other companies following a less conservative course may be obliged to cut out dividends entirely. Certainly undistributed earnings have a real value, which cannot be ignored in arriving at the intrinsic worth of a share. It would be quite possible for a company like Utah to issue additional securities, which securities would produce a sum of money sufficient to make it possible to carry its own copper and make enlargements of plant, etc., and thus enable it to pay out 100 per cent. of its earnings in dividends now, instead of building up the business to intended capacity out of earnings.

There has been no material increase in Utah's capitalization since 1910. In that year the production of ore was 4,430,000 tons, and that of copper 89,000,000 pounds. In 1916 the production of ore was 11,000,000 tons and 194,400,000 pounds of copper. In 1910 the earnings were $3.46 per share, and in 1916 $24.46. It is quite evident that this increased capacity was made possible through the diversion of such earnings as were not paid in dividends to capital expenditures, and it is apparent that the stockholder is very much better off for it. Assuming that only 60 per cent. of the earnings of this property is to be diverted to dividends throughout the life of the property is erroneous. The point that "Saxon" overlooks is that this property is a comparatively young one, as are all the "porphyries," none of which have yet reached their maximum production.

If it is desirable to disregard the earnings of a mining company and only consider dividends in order to arrive at the amortized value of its shares, it would appear proper to consider the older mines in arriving at a basis for calculation. The Homestake Mining Company, the largest gold property now in operation in the United States, was incorporated in 1877. This company earned during the five years ending December 31, 1916, a total of $10,235,032, and paid out during these years $10,087,249, or 98.5 per cent.

The Champion Copper Company, incorporated in 1889, reported net profits for the ten years ending December 31, 1916, of $15,891,513, and paid in dividends $14,814,541, or 93.5 per cent.

The Quincy Mining Company, incorporated in 1848 and still operating one of the oldest copper mines in the United States, reports receipts over expenditures from organization to December 31, 1916, amounting to $26,201,-115. Dividends during this period amounted

to $23,537,500. In this case the dividends amounted to 89.7 per cent. of the earnings.

The Osceola Consolidated Mining Company, incorporated in 1873, reports for the eight years ending December 31, 1916, a profit of $8,778,720, and paid in dividends during this period $7,451,625, or 85 per cent.

The above are a few samples of the older mining companies, chosen at random, which companies happen to present figures from which it is possible to estimate the difference between the amounts earned and the amounts paid out in dividends over a series of years.

"Saxon" also takes occasion to make a valuation of the present value of Canada Copper. He considers it conservative to take only ten years for the life of this mine and to ignore any possibilities for additional ore which have been referred to by several competent engineers and geologists who have examined the property. He assumes that but 60 per cent. of the earnings will be paid out in dividends and amortizes this amount. Does "Saxon" recall that the shares of the Utah Copper at one time sold at $5.00, and that at that time the question of handling this class of ore at a profit was to a considerable degree experimental? Does he recall that the shares of Chino Copper were brought out at $5.00 at a time when there were but 3,000,000 tons of ore in sight? Likewise nearly all of the other porphyry mines, which, if valued by "Saxon" by the tonnage blocked out, without using any imagination as to the possibilities for additional ore inherent in deposits of this kind, would have left "Saxon" without any investment at all in these properties.

Certainly no one can be criticised for conservatism, but in order to make a success of an industry it requires the use of a certain amount of imagination, without which no business will be done, and the wheels of progress would proceed very slowly if directed along the hard and fast lines "Saxon" suggests.

In the case of Canada Copper, "Saxon" would learn, if he investigated, that the geological conditions are such that there is promise of double the present tonnage being blocked out. When this development is realized, the usual increase in plant capacity will no doubt be effected. Based on the concrete form in which he presents his analysis of this property, certainly no one would buy the shares, no one would have assisted in financing, and there would have been no money provided to block out the additional tonnages which geological conditions indicate are present and on which development the enlargement of the business depends. Fortunately there are others of more imaginative tendencies, inspired with confidence based on the experience with many other properties of this nature, who are quite ready to assist in developing these resources.

Very truly yours,

"ANGLO-SAXON."

## LAMAR, EX-WOLF OF WALL STREET

**"This gentleman wants to see you on business."**

**Visitor and prisoner look steadily at each other. The blue crash uniform worn by Lamar is considerably frayed, but neat and clean. There is nothing about it to indicate prison garb, it might be the outer garments of a sculptor or a gardener or even a hunting suit. He wore a soft, dark shirt and black tie. Big horn rimmed glasses give him the appearance of a student, an inventor, a professor.**

**"I do not recall the gentleman," he said, courteously, standing well apart.**

**"Well, anyhow, it is a business call and we might as well step into the reception room," said the guard, encouragingly.**

**With a sweeping bow Lamar consented and we passed into a cheerless barren room where the windows are high up in the walls and the only furnishings consist of a table and some chairs. A policeman's club hangs on the wall, and that is all.**

**We found chairs, the guard sitting between us. The door of the room was closed and all that went on inside was private save that the guard represented the ears of the Federal Government in all that transpired.**

**There was some talk as to the business in hand, but Lamar seemed troubled. Suddenly he turned to the guard.**

**"You will tell the Warden that this is a business call, that it does not interfere with my privileges of other calls from friends and relatives?" he asked eagerly.**

**"That is all right," the guard reassured him, "we all understand that." This relieved Lamar and he settled back comfortably in his chair and gazed at the ceiling, apparently in retrospect.**

**"I am on the shady side of life," he said suddenly, looking at the visitor. "I have all the money I need; I only want peace and to be left alone."**

**"You have no desire to exonerate your position before the world?" the visitor asked him.**

**Lamar seemed surprised.**

**"I do not share the views of Mr. Lawson, who wrote 'Frenzied Finance.' It is one of the unwritten rules of the men in Wall Street to take their medicine and not to squeal.**

**"I have had my day in court and was constitutionally protected. All that could be done for me was done. The courts were fair with me and I was justly imprisoned. I am in prison, but some day all that it means will be forgotten. When I come out I will be square, I will have paid whatever debt I owed. I have learned that everything concerning a man's happiness comes from within and that it is an inexhaustible source.**

**"There is no one I want to fight. When I am out of this I shall go back to my home in New York, live quietly on the money I have, and trouble nobody! Perhaps I shall evolve from my own experience a book of confessions—confessions that will help and inspire younger men to do right, but not exactly a book that will betray the game of Wall Street. There are morals that survive in a man's nature, even when he is in prison."**

**As we stepped out from the gloomy reception chamber into the marble corridor Lamar shook hands cordially.**

**"You know my address on Fifth Avenue, in New York. I hope we shall meet there very soon."**

**He walked briskly away toward the other gates that opened to the cells.—** ***The Forum.***

# RAILWAYS AND INDUSTRIALS

## Downward Trend of Steel Earnings

### Industry, War and Weather Hit—That "Reconstruction" Demand—The Immediate and the Long-Range Views

By BARNARD POWERS

WHILE the directors of the United States Steel Corporation at their last meeting declared the regular dividend of 1¼ per cent on the common stock and 3 per cent extra, in addition to the regular preferred dividends, and while the quarter after all deductions including ordinary and special taxes, showed a balance of $7.44 on the common stock or at the rate of nearly $30 per annum, there are factors in the steel situation which are causing the steel heads to indulge in some very serious thought.

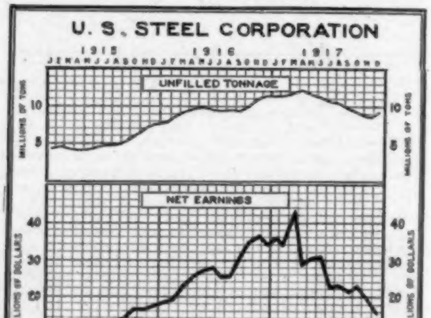
These factors are but faintly suggested in earnings' reports and market quotations. They are not written out nor presented in interviews. They are not mentioned in talks "for publication," nor are they discussed at all except in the range of trustworthy and discreet ears. These disturbing elements are summed up in the query: "What will happen to the steel industry after the war?"

#### After the War—What?

Ask any steel man what will happen to the industry after the war and he will answer without a moment's hesitation that he does not know. Nor will he be open to the charge of evasion because of such an answer. Nobody *knows* what will happen to the steel industry after the war, but there are many who have a fairly definite idea as what *may* happen. Some months ago when the "reconstruction" theory was widely in vogue, this publication raised the question as to whether the reconstruction demand would make up for the shutting off of the tremendous war demand. Our conclusion then was that it would not. It seemed to us that the cheery talk about rebuilding the world after the war was largely the sort of camouflage a person indulges in when he whistles to keep his courage up. Since that time many things have happened to strengthen that conclusion and I do not think it an exaggeration to say that now it is shared in by a large percentage of the leaders in the steel industry.

#### Steel's Earnings

The graph herewith was published in our Jan. 19 issue, but at that time did not include December's unfilled tonnage orders nor net earnings for the last quarter of 1917. It will be perceived that while the unfilled tonnages for December showed no change of moment, the net earnings for the last quarter after a slight recovery for October




over September, took a sharp dip in November and a further dip in December. The December's net earnings of $17,985,272 were the lowest for any one month of the year as shown by the graph.

How earnings for the last quarter of 1917 compared with the corresponding quarters in the preceding years is brought out by the table herewith.

#### The Immediate Prospect

Is the decline in Steel's earnings a temporary affair brought about by the readjust-

ment from a peace to a war basis and are the prospects for an improvement from now on? There is nothing in the situation as far as one can see ahead to warrant such a conclusion. Quite the contrary. The year 1917 saw the company's orders based on pre-war (that is, before this country went to war) prices practically cleaned up and this year to date the domestic demand for steel is conspicuous by its falling off.

Labor is too high and prices are too high to allow of a big domestic demand, to say nothing of the pressure exerted by the government to keep down new construction on the part of individuals. Furthermore the coal scarcity and lack of transportation facilities has operated forcefully in slowing up the steel business. Operations of the steel mills at the present time are estimated at 40 per cent to 50 per cent of capacity and for the most part the business is government business which is not nearly as profitable as the pre-war business. Best opinion is that unless there is a sudden and very radical change in the situation the earnings for the first quarter of 1918 will make a new record for the last two years.

## The Long Range View

In taking a long-range view of the industry one must be careful not to be led away by the "reconstruction" theory. It must not be forgottten while France and Russia's steel output has been curtailed by the war, the production of the Central Powers, England and the United States has been stimulated tremendously. At the outbreak of the war in 1914 the world's production of steel was approximately 76,000,000 tons, of which this country produced approximately 45 per cent. Before this country joined in the fray the world's production of crude steel had increased to the rate of nearly 85,000,000 tons per year, of which the Central Powers produced approximately 21,800,000 tons, the Allies 20,000,000 tons and this country 43,000,000 tons or 47 per cent of the total. Great Britain is now producing close to a rate of 1,000,000 tons per annum and this country's capacity is rated at 50,000,000 tons per annum.

In short the world has experienced an enormous war demand for steel with a corresponding increase in capacity. Take away the war demand and you still have the expanded capacity. Allowing for an improved domestic demand, after the war and the "reconstruction" demand and the position of steel after the war simmers down to the question as to whether the post-war demand for peaceful purposes will make up for the falling off in the demand for war purposes. Best opinion in the steel industry appears to be that it will not.

**U. S. STEEL'S EARNINGS IN THE LAST QUARTERS FOR THE LAST FOUR YEARS.**

| | 1917 | 1916 | 1915 | 1914 |
|---|---|---|---|---|
| **Earnings** | *$59,724,125 | $105,968,347 | $51,232,788 | $10,933,170 |
| **Depreciation and sinking fund** | †11,688,781 | 9,646,737 | 8,729,053 | 2,922,572 |
| **Net income** | $48,035,344 | $96,321,610 | $42,503,735 | $8,010,598 |
| **Int. and prem. U. S. S. Bonds** | 5,470,103 | 5,639,648 | 7,338,399 | 7,311,962 |
| **Balance** | $42,565,241 | $90,681,962 | $35,165,336 | $698,636 |
| **Adjudicated credit** | 1,600,808 | 129,626 | 794,057 | ........ |
| **Total** | $44,166,049 | $90,811,588 | $35,959,393 | $698,636 |
| **Preferred dividends** | 6,304,920 | 6,304,920 | 6,304,919 | 6,304,919 |
| **Common dividends** | 21,602,857 | 15,249,076 | 6,353,781 | ........ |
| **Surplus for quarter** | $16,258,272 | $69,257,592 | $23,300,693 | §$5,606,283 |

**§Deficit.**

***Total earnings after deducting all expenses incident to operations, comprising those for ordinary repairs and maintenance of plants, allowances for estimated proportion of extraordinary cost of facilities installed by reason of war requirements, also taxes (including $60,950,364 for account of war income and war excess profits tax), and interest on bonds of subsidiary companies.**

**†Depreciation and extraordinary replacement funds and sinking funds on bonds of subsidiary companies, and sinking funds on U. S. Steel Corporation bonds.**

# Corn Products versus Pullman—An Investment "Switch"

## Investment Possibilities of Both Companies—Earnings Compared—Their Financial Status and Their Prospects

By FREDERICK LEWIS

THE holder of securities of industrial companies that has a proper regard for his investments should continually keep in touch with conditions affecting the securities in which he is interested. Changed conditions, or a less efficient management can very easily turn big net earnings into deficits. Because an industrial corporation has had an excellent earning record in the past is no criterion that it will have an equally good record in the years to come.

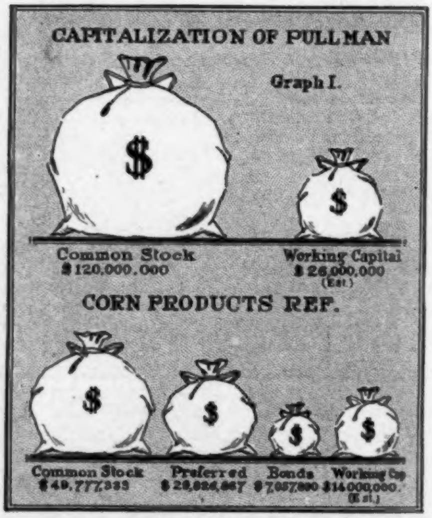
In other words, because an investor has had reason to be satisfied with the returns a certain security has given for a period of years is no reason for his being assured that his investment is now a good one to stay with. His attitude should be: "Is there some security with better possibilities than the one I am in?" which brings up the subject of this article. In the previous issue of THE MAGAZINE OF WALL STREET the relative merits of National Biscuit and American Can were discussed, and the facts brought out tended to indicate that American Can common stock has excellent possibilities of, in a few years, reaching the investment level now enjoyed by National Biscuit.

In the present article Corn Products Refining Co. and Pullman Co. are compared. The former company has made truly remarkable strides forward in the past few years, whereas the latter has not done much more than hold its own. Table I shows strikingly how one has advanced while the other has stood still.

### Corn Products

Corn Products Refining Co. was incorporated in 1906 in New Jersey and took over several of the leading concerns engaged in the manufacture of glucose, starch and other corn products. Many of the companies taken into the organization had had at best but meagre success, and as a result several unprofitable plants were acquired. The company started, therefore, with a highly inflated capitalization, the $49,777,333 common stock was practically all water.

Perhaps the greatest asset of the company, when it was first formed, was a capable management. Without that it is doubtful if it would have survived for long. Efforts were at once made to bring about a more efficient and economical operation and a number of poorly located plants were shut down, dismantled or sold. The plants with the better possibilities were enlarged




and improved, new plants constructed and modern devices installed. The selling organization was brought up to a high state of efficiency and the quality of the output improved.

### Water Squeezed Out

It has been a long hard pull to replace the water in the company with good substantial assets but the task has finally been accomplished in very considerable measure. Since organization to date approximately

$35 a share on the common stock has been put back into the property from earnings, and this is after very liberal deductions for depreciation, replacements, etc. In 1916, for example, $1,420,000 was charged off on this account; in 1915, $1,115,000, and in 1914, $980,000.

**TABLE I—NET INCOMES**

| | Pullman | Corn Products |
|---|---|---|
| 1908 | $9,788,924 | $2,448,727 |
| 1909 | 10,948,201 | 2,471,198 |
| 1910 | 13,933,498 | 2,071,936 |
| 1911 | 11,140,032 | 2,102,612 |
| 1912 | 10,428,458 | 2,050,652 |
| 1913 | 11,141,108 | 2,284,855 |
| 1914 | 10,844,917 | 2,305,174 |
| 1915 | 10,546,848 | 3,168,368 |
| 1916 | 12,380,367 | 6,083,747 |
| 1917 | 13,632,412 | *10,000,000 |

*Estimate by official of company after allowing for war taxes.

Pullman earnings cover the 12 months ended July 31, Corn Products earnings cover the 12 months ended Dec. 31, from 1913 to 1917, both inclusive and the 12 months ended Feb. 28 from 1908 to 1912.

These earnings put back into the property have not only greatly improved its physical condition but has also made it strong financially. A few years ago, for example, working capital stood at only $5,000,000, as against a present working capital of approximately $14,000,000.

## Effect of War

While it is true that the war has greatly benefited Corn Products this does not necessarily mean that when the war is over the present earning power will shrink to pre-war levels. The fact should be born in mind that the scarcity and high prices of sugar, potato starch, pork, lard, edible oils, etc., have popularized corn products and introduced them to thousands of homes that never used them before. In other words, the war has educated the people to the use of corn products.

In view of the real merit of most of Corn Products famous brands, such as Karo Corn Syrup, Mazola (an oil extensively used in cooking), Argo Starch, Kingsford's Corn Starch, etc., a very large percentage of this new business should be kept after the war.

## 1917 Earnings

The high price of corn has been met by an advance in the company's products, as well as by a reduction in costs because of capacity operations. Difficulty in obtaining sufficient corn handicapped the company somewhat, necessitating in the fall of 1917 a partial shutdown of its plants. This makes the showing for the year 1917 all the more remarkable. The annual report will be issued shortly and close to $17 a share on the common stock will be shown, after allowing for depreciation and war taxes.

All back dividends on the preferred stock have now been paid up, through the payment of 19 1/6 per cent. in 1917. With a strong financial position and prospects that 1918 will be just as profitable a year as was 1917, the common stock would be in line for dividends shortly were it not for the Government suit.

## Government Suit

The Government suit against Corn Products was instituted in March, 1913, under the Sherman Anti-Trust Act and was decided against the company by the United States District Court at New York, June, 1916. A decree was entered ordering the dissolution of the corporation and at the same time the court took the unusual course of directing the Federal Trade Commission at Washington to frame the terms of the dissolution. The court held that the company controlled more than 60 per cent. of the business and commerce of the country in glucose and starch.

An appeal was taken from the decision and was awaiting argument and final adjudication, when the Attorney General re-

**TABLE II—CORN PRODUCTS—PULLMAN CO.—Dividend Records.**

PULLMAN COMPANY

| | 1874 | 1875 | 1876-80 | 1881-3 | 1884-97 | 1898 | 1899 | 1900-17 |
|---|---|---|---|---|---|---|---|---|
| Capital Stock | 12% | 11% | 8% | 9½% | 8% | 28% | 6½% | 8% |

CORN PRODUCTS

| | 1906 | 1907 | 1908-16 | 1917 |
|---|---|---|---|---|
| Preferred Stock | 2% | 7% | 5% | 26 1-6% |
| Common Stock | | None | | |

cently requested the Supreme Court to postpone hearings on this and other anti-trust suits until after the war. There are competent authorities entirely familiar with the Supreme Court findings in anti-trust suits that maintain that the lower court was in error and that there is an excellent chance that the verdict against the company will be reversed on appeal.

Even should the verdict go against the company it is believed that the company will find some way of bringing its operations within the law that will not cause it any great hardship. The company cannot pay dividends on the common stock, without a special court order, until the case is decided.

### Pullman Company

Pullman Company stock has one of the best records as regards consistent dividend payments of any industrial corporation in the country. Dividends have been paid without a break since 1874. See Table II.

**TABLE III—CORN PRODUCTS—PULLMAN CO—Range of Stocks.**

| | Corn Products Com. | | Pullman | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1908 ..... | 20½ | 10¾ | 174 | 147 |
| 1909 ..... | 26½ | 16½ | 200 | 169 |
| 1910 ..... | 23¼ | 11½ | 200 | 155 |
| 1911 ..... | 15¾ | 9⅝ | 163 | 154 |
| 1912 ..... | 22⅛ | 10 | 175 | 158½ |
| 1913 ..... | 17⅛ | 7⅜ | 165 | 149 |
| 1914 ..... | 13⅛ | 7 | 159 | 150 |
| 1915 ..... | 21½ | 8 | 170½ | 150⅛ |
| 1916 ..... | 29¾ | 13¼ | 177 | 159⅞ |
| 1917 ..... | 37¼ | 18 | 167½ | 106¼ |

As of July 31, 1917, the company had net tangible assets of $111 a share. This would appear to be small in view of the long period of prosperity the company has enjoyed. The explanation lies in the fact that a very large percentage of earnings have been distributed in cash dividends and in addition stock dividends have been paid. In 1910 a 20 per cent. stock dividend was paid, in 1906 a 36 per cent. stock dividend, and in 1898 a 50 per cent. stock dividend.

In the current fiscal year Pullman Company has had many difficulties to contend with. Increased cost of labor and material has cut into earnings. What is more important, the congested condition of the railroads of the United States has resulted in the elimination of many passenger trains and cut down the number of Pullmans in service.

The principal earnings of Pullman Company come from its cars, which are operated on all the important roads of the country. The reduction of train service, therefore, has an important effect on the company's earnings.

### Outlook

Earnings for the year ending July 31, 1918, are expected to show a considerable decrease, in fact they may not show much better than the dividend covered. For the year ended July 31, 1917, 11.36 per cent. was earned and in the previous year, 10.32 per cent. Large deductions are made for depreciation, but, as the greater proportion of the company's assets consist of rolling stock, these large deductions are necessary. The company's practice is to charge off about 5 per cent. of the cost of its equipment each year, around $6,000,000.

In the past decade Pullman has not shown any important increase in earning power and the prospects are not particularly bright that the future will show important advances. It is believed that Government control of the railroads will tend rather to reduce Pullman's earnings than increase them. At present prices of around 115, the stock is not selling far from its intrinsic value but its future possibilities do not appear sufficiently bright to make it appeal to the investor who is looking for a substantial appreciation in the value of his securities.

### Position of Stock

The status of Corn Products is entirely different, it is a rapidly growing concern. Its products have attained great popularity and, because of their merit, this popularity is likely to be maintained. Prospects are that in the years 1917 and 1918 more than than the present market price of the stock (34) will be earned. The known facts in regard to these two companies tend to indicate that Corn Products common has much better possibilities of appreciating in value than has the stock of the Pullman Co.

# Right and Wrong Methods of Speculation and Investment

## Article VII—Buying on Bulges

**By RICHARD D. WYCKOFF**

**[Note: With a view to their timeliness, these articles are being presented in a somewhat different order from that given in the preliminary announcement.]**

As everyone in Wall Street knows, the public does most of its buying on bulges, or when the market is strong. By the public I mean all those who deal in stocks for profit, with the exception of the man who is reading this.

Why they do it I will explain later, but first let me prove what is generally regarded as a fundamental weakness of the outsider, then turn it inside out to get the insider's point of view.

An author who styles himself "Don Guyon" has written a book,* "One Way Pockets," in which he analyzes the accounts of half a dozen of the most active traders dealing with his firm. The period selected was July 1, 1915, to February 29, 1916, and the trades examined were in five of the most active stocks, which advanced in that period from 27 to 118 points each; viz., U. S. Steel, Crucible, Baldwin, Westinghouse and Studebaker.

These six accounts were combined as though all the trades in Steel and the other stocks were made by one man. Then the buying and selling prices were averaged to see the price at which the composite trades were made. The net result in tabulated form was as follows:

**COMPOSITE RESULTS SHOWN IN SIX ACTIVE TRADING ACCOUNTS, JULY, 1915, TO FEBRUARY, 1916, INCLUSIVE**

| | Gross Points Advanced | Average Price Bought | Average Price Sold | Loss Excl. Coms. |
|---|---|---|---|---|
| U. S. Steel.... | 31⅜ | 81½ | 80⅝ | ⅞ |
| Crucible ..... | 80⅞ | 85⅜ | 79¾ | 5⅝ |
| Baldwin ..... | 90½ | 111⅛ | 104 | 7⅛ |
| Studebaker .. | 118⅞ | 138⅝ | 135½ | 3⅛ |
| Westinghouse. | 27⅛ | 62⅝ | 61¼ | 1⅜ |

The graphs herewith show more clearly how this great money making period resulted unprofitably, owing to wrong trading methods.

Two months before this tabulation was completed, the accounts showed commitments larger than at any preceding stage of the movement, proving that the greatest load had been acquired near the top instead of near the bottom. These traders had all been bullish and for the most part had operated on the long side, but in the end they lost money.

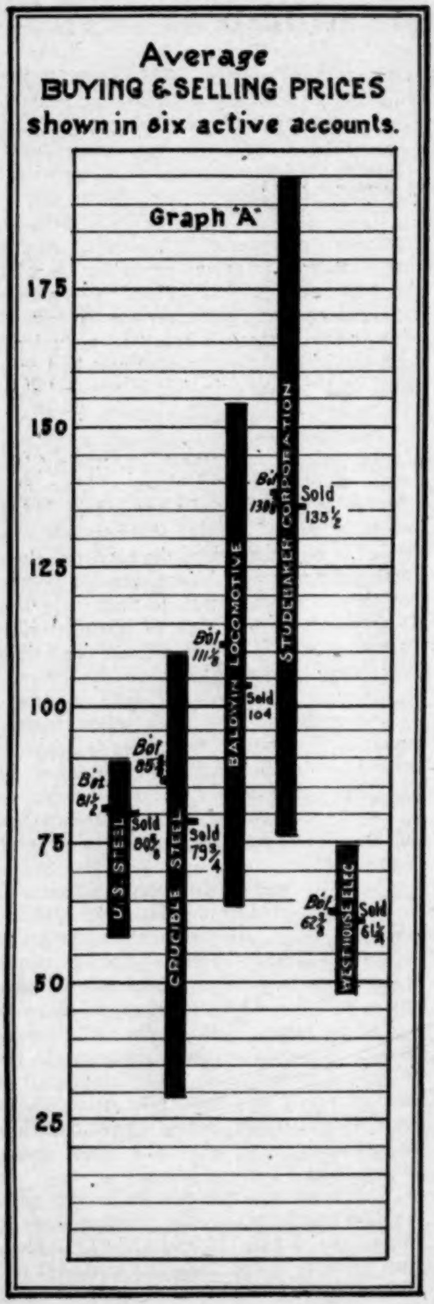
Each point advance in any of these stocks represented an opportunity to make $100 gross on one hundred shares. The total advance in the five stocks aggregated 348¾ points, or $34,875. Had these traders succeeded in making 1% of the total rise their combined profit would have been 3½ points, but they could not even do that: they lost 18⅛ points or over 5% of the total rise. In each case they sold at a lower price than they bought, proving that on the average they bought on bulges and sold on dips.

The author of the book offers further proof of this public failing in a separate compilation of the number of shares bought and sold on various rises and declines as shown by the average price of twenty-five stocks. This we also present in graphic form.

Graph B needs a little explanation. It covers the period from March 1, 1916, to March 1, 1917. The columns on the graph represent selected periods during which there was a marked preponderance of buying or selling. The price range of an average of 25 industrial stocks for each of these periods is shown by the white space in the middle of each column. The black part of the column, above the white space, shows purchases of stocks during the period, while the shaded part, below the white space, shows sales.

The most striking feature is the great volume bought while the averages were in the ranges of 111-117 and 111-113. These two periods alone indicate that 437,000 shares were bought and 222,000 sold,

*For sale by The Magazine of Wall Street.




showing how these six traders loaded up at the top.

Omitting the first range of 100-103 because it represents the starting point, we find a predominance of purchases on the bulges:

| | |
|---|---|
| **Bought on advancing prices....** | **847,000 shares** |
| **Sold on advancing prices......** | **591,000 "** |
| **Excess of purchases........** | **256,000 shares** |
| **On the other hand, when declines occurred, sales predominated:** | |
| **Bought on declining prices.....** | **365,000 shares** |
| **Sold on declining prices.......** | **436,000 "** |
| **Excess of sales.............** | **71,000 shares** |

Combine the figures and graphs presented and we see at once some of the reasons why the public loses money in trading. The public here represented did not buy Steel below 60 and hold it till it nearly touched 90. Theoretically, they waited till it was up 23 points from the low, then bought. Finally they sold out at a fractional loss.

What is worse, they bought more than two shares at the high prices for every share at low prices, so that a decline of 10 points wiped out any profit that might have been made on a previous 20-point rise.

This is exactly what large operators want the public to do, for if outsiders did not buy heavily on the bulges, the large operators would not have sufficient market for all they want to sell.

*To make money the public must learn to trade the same way as the large operators.*

Of course, if everybody could do this, the big fellows would not make any money, and would have to worry along with what they have. But there is a new public coming into the market every month in the year, eager, ignorant, and reckless.

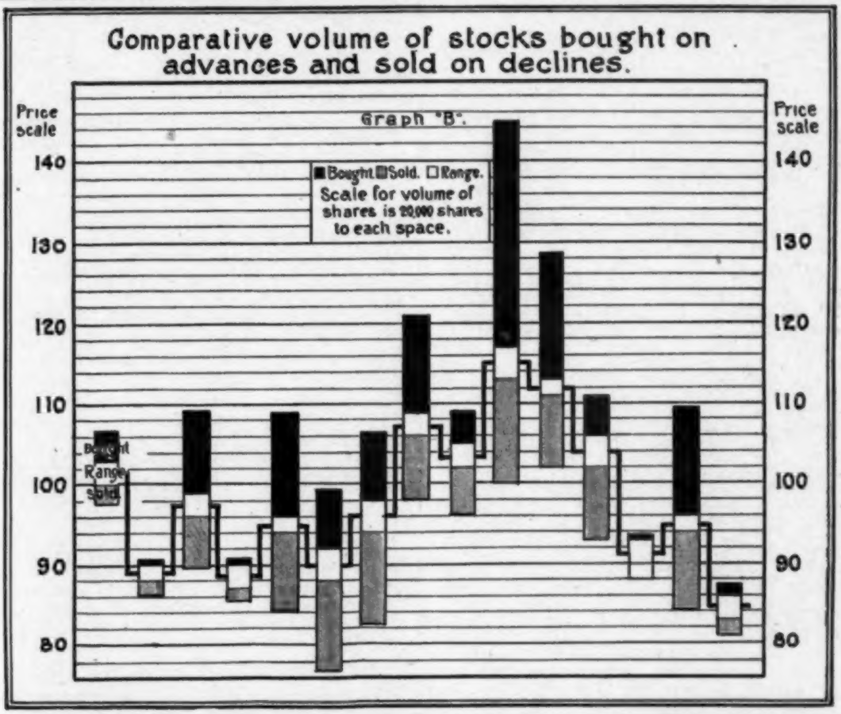
This weakness of the public: this tendency to buy when the market is strong and sell when it is weak has its roots in human hope and fear. Hope of a profit actuates the purchase, and hope expands cumulatively as long as the stock rises. When the price reacts fear begins to creep in, but a new high revives hope and the imagination again soars.

In a declining market hope that the stock will recover keeps the trader on the long side, until fear that he will lose his profit or his margin impels him to sell.

As all manipulation has two primary objects: (1) to make the public buy or (2) sell, the large operator works on these hopes and fears, with the result that the public buys when he wants to sell and sells when he wants to buy.

*To find the short cut out of the lamb class, eliminate hope and fear.*

Make an intelligent forecast and then buy or sell because your judgment tells you it is the thing to do, regardless of any hope of profit or fear of loss. And remember




A cross section of a 20 point manipulated rise would show that the public pays little attention to the first 10 points; becomes interested in the next 5 points and buys on the top 5 points. This is because outsiders are finally unable to resist the suggestion that rising prices indicate still higher levels.

that every bulge, great or small, carries with it the germ of reaction of a third to a half. It is the better part of valor to be discreet and wait for that reaction.

In a word: "Well bought is half sold."

(*The next installment will treat of "Over-trading."*)

## TAKING A CHANCE

**Some men quail at little hills, others laugh at mountains. D. C. Jackling not only laughed at a mountain, he determined to move it. His aim was to cart away a huge chunk of Nature 1,400 feet high and dig it into a pit. And in the face of innumerable warnings from veteran mining engineers, the youthful Jackling tackled West Mountain, thirty miles from Salt Lake City, in Bingham Canyon. The rest is history. From 1903 to 1917 about 54,000,000 tons of ore and 39,700,000 cubic yards of waste capping were removed, yet there still remains about 370,000,000 tons of ore, or twenty-six years' supply. In the beginning Mr. Jackling suggested to friends that they purchase shares in the new Utah Copper Company at 25 cents a share. Their investment is now paying dividends at the rate of $14 a share annually.—*Wall Street Journal.***

# Railroad and Industrial Digest

*These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.*

**Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor.***

## RAILROADS

**BALTIMORE & OHIO—The Fiscal Year and Three-Year Average**—According to the recent statement of Pres. Daniel Willard the company fell short of earning the 5% dividend on the common in the fiscal year ended Dec. 31, 1917, by an amount equal to about 1½% on the common stock. It takes $2,354,000 to pay 4% on the pfd. and $7,597,000 for 5% on the common, which made a deficit for the year of about $2,255,000, as against a surplus in the previous year of $2,611,507, or total earnings of 6.7% on the common in 1916. It was also stated by Pres. Willard that in the three years ended June 30, 1917—the period adopted as a basis for Government guarantee—the road had earned a balance over dividends of above $2,000,000 per annum. Unofficially estimated earnings for the 12 months ended June 30, 1917, were $33,100,000 net operating revenue. In the year ended June 30, 1916, with net revenue somewhat less, there was earned $3,664,463 beyond dividends and in 1915, $771,474. This would account for easily more than $2,000,000 average surplus for that three-year period. B. & O. has $7,500,000 notes maturing in July, 1918, but the $8,000,000 which the road has borrowed recently is likely to go into new construction and equipment. Passage of the pending railroad control bill will offer the road the practical assurance that the Government will purchase securities for the refunding not only of the old notes, but of the six months' loan.

**CENTRAL OF NEW JERSEY—$120,000 for Employees**—A wage victory that carries with it $120,000 of back payments for 1,600 employees in the shops and repaid departments of the company, in the region between Scranton and Easton, has been announced by Ethelbert Stewart, mediator of the U. S. Department of Labor.

**CHIC., MIL. & ST. PAUL—Dividend Action Depends on Government**—Pres. H. E. Byram in commenting on the action of directors in deferring dividend action, said it did not mean that the dividends had been passed, but he would not say whether or not the dividend question would be taken up at a later meeting of the directors, when a more definite knowledge of the terms under which the Government will take over the roads will be possible. He intimated, however, that if the plan for Government control goes through St. Paul will receive enough to meet its dividends requirements. Earnings during 1917, Mr. Byram thought, were just about sufficient to pay the regular preferred dividend. Questioned on his attitude toward the Government program, Mr. Byram said: "It is not as good as we could have wished, but it is probably as good as we can get. We shall abide by whatever the Government decides."

**DEL. LACKAWANNA & WEST.—1917 Dividends**—Secretary-Treasurer Chambers states: "The net corporate income for the years 1916 and 1917 was sufficient to pay all dividends which were declared by the company during those years. The dividend paid Jan. 20, 1917, was declared in December, 1916. While it is impossible to say when the cash was earned which was paid out in dividends in 1917—whether partly in 1917, wholly in 1916, or partly in the preceding years—it is thought that under the facts stated a stockholder could not be subjected to criticism were he to assign dividends to the earnings of the year in which they were declared."

**DENVER & RIO GRANDE—Receivers Sworn in**—Edward L. Brown and Alexander R. Baldwin have been sworn in as joint receivers. The bond was fixed at $50,000 each, furnished by the National Surety Co. of New York. The court announced that it would approve, subject to final approval of Director General McAdoo, the Equitable's offer to buy at 95% of appraised value, $2,000,000 worth of free assets of the railroad, the receivers to be given an option to buy them back again at the same figure any time within one year. These free assets consist mainly of Liberty bonds and Utah Fuel Co. bonds. The Equitable's proposition to loan the road $2,000,000 outright was rejected by Judge Sanborn, who stated such action would tend to impair the credit of the receivers.

**KANSAS CITY SOUTHERN—Net 1917 Shows Increase**—Company is one of the few important companies which has increased its net operating income for 1917 over that of 1916. Net after taxes for twelve months ended Dec. 31, 1917, amounted

to $4,495,294, an increase of $569,246 over 1916.

Notwithstanding this showing, Kansas City Southern refunding and improvement 5% bonds due April 1, 1950, are selling around the lowest price in their history, 74, to yield about 7⅛%.

There are $18,000,000 of these bonds outstanding. They were first brought out in 1909 at 100, and in 1911 $5,000,000 were offered at 101.

These bonds are secured by second mortgage on practically the entire property of the company subject to a prior lien of $35,000,000 first 3s, 1950. They are legal for investment by life insurance companies under the laws of the State of New York and are extensively owned by those companies and other investing corporations.

**N. Y., NEW HAVEN & HARTFORD—$1,000,000 of Notes Bought In**—On Jan. 28, since company issued its $45,000,000 notes in the Spring of 1917 it has bought in about $1,000,000 par of them, so that the amount to be taken care of April 15, 1918, is $44,000,000. Purchases were made almost entirely out of earnings, aided only to a slight extent by the proceeds of sales of certain small parcels of real estate.

**N. Y., ONTARIO & WESTERN—Earnings, 1917, 1.68%**—Final results for the 12 months ended Dec. 31, 1917, although not as favorable as the 9-month statement promised, are an improvement over the previous 12 months. Earnings at the rate of 1.68% for the common were shown, compared with 1.44% in 1916.

**NORFOLK & WESTERN—14.97% on Common, 1917**—December for this company was a poor one, the net result being shrinkage of net profits on 1917 showing by $275,000 more than the eleven-month statement indicated. However, the year's showing is the best in the company's history, with the single exception of the abnormally prosperous year 1916. Fixed charges were earned 5.74 times, the preferred stock dividend was earned 20.5 times, and there was earned on the common stock 14.97%, or more than twice the 7% dividend. Final figures of the monthly reports gave $18,946,137 as the amount earned over fixed charges by the Norfolk & Western, for the fiscal year ended Dec. 31, 1917, which, after deduction of $920,000 for preferred dividends, means a balance equal to 14.97% on $120,445,000 common stock.

The operating ratio for 1917 was 62.45%, against 56.36% in 1916; transportation to gross receipts was 31.57% in 1917 and 24.86% in 1916. The December results showed a greater disparity.

Gross revenue was $65,910,242, a gain of $6,460,260 or 11% over 1916. Freight business increased $5,266,849, or 10%, and passenger traffic helped by troop movement to camps, etc., increased $1,164,431, or 16%.

The road has not allowed its equipment to go down, apparently, as the 1917 expenditures for this account were $12,051,912, which was $1,709,411, or 17% more than in 1916.

On its railway operations the road went only $1,192,510 behind 1916 in the matter of net profits, but $2,615,000 more for war and excess profits taxes produced a decrease of $3,807,510 in balance of net earnings.

**PENNSYLVANIA—Embargo Closes Eastern Lines**—On receipt of an official order from Secretary McAdoo calling for an embargo of its lines east of Pittsburgh, company announced the levying of the embargo, to take effect immediately. The new embargo covers both carload and less-than-carload shipments, and forbids, until further notice, acceptance of any freight for points on or reached by the Pennsylvania Railroad lines east of Pittsburgh and Erie, except for certain essentials.

**PITTSBURGH & WEST VIRGINIA—Status**—Strength and activity in this company's stock reflect the good showing which it is making and the position in which its stocks stand. Dividends, 6% per annum, inaugurated August, are being paid on the preferred, of which there is $9,100,000 outstanding. Dividends on this call for only $546,000 per annum, and they do not become cumulative until after Jan. 1, 1921. At the prevailing price for the stock of around 63½, the yield on the investment is approximately 9.4%. Preferred dividends are being earned by a liberal margin. Less than a year previously Company emerged as a reorganization of the old Wabash-Pittsburgh Terminal. The new company began operating early in April, 1917. Pittsburgh & West Virginia comprises both railroad and coal properties, the latter producing large earnings. It owns all the capital stock of the Pittsburgh Terminal R. R. & Coal Co., and the coal company in turn owns approximately 15,000 acres of the best coal lands in the Pittsburgh district. It is estimated that full dividends on preferred of this company are being earned from railway operations alone, leaving earnings from the coal properties to accrue to the benefit of the common stock, of which there is $30,500,000 outstanding. Earnings have been running at the annual rate of $12 to $13 per share on the common. There is practically no funded or other debt ahead of the preferred. The company has been in the enviable position of having been able to pay off out of earnings something over $900,000 of real estate mortgages and also retire a considerable amount of equipment trust certificates. The common stock with a substantial equity accruing, and the preferred already on a dividend basis, is therefore in position where a return to common stockholders becomes a lively possibility.

**AM. BEET SUGAR—Extra Dividend Possibility**—Strength which developed in this company's stock was due to the rumor about the planned declaration of an extra dividend of 5% in February.

**AM. CAN—Tinplate Inventories, Increase**—When company offered $12,000,000 seven to ten months' paper, to take care of increased cost of tinplate, it did not make a great deal of impression. The increase in price of tinplate and the great increase in stocks which it is felt prudent to carry were the motives of this financing. In January, 1917, Can was carrying less than $4,000,000 of tinplate, in its inventories, it is now carrying between $10,000,000 and $11,000,000. The financing is temporary and undoubtedly will be liquidated when conditions are more normal.

**AM. HIDE & LEATHER—Earnings, Fourth Quarter**—Company in the December quarter, 1917, showed more than double the earnings of the September quarter. Preferred issue amounts to $13,000,000, but $12,548,300 is outstanding.

There was earned on the amount outstanding $5.59, against $2.58 for the preceding three months. Earnings for the last quarter were at the annual rate of $22.36. Net quick assets after deducting bonds amount to more than $74 a share on the preferred, exclusive of plants having a book value of $26,000,000.

Annual dividends of 5% require $627,415, while $702,212 was earned in the last quarter. Inventories are in excellent shape. Bank loans are substantially reduced during the quarter. As 117% in back dividends is accrued on the cumulative preferred, this issue practically owns the property, and the common has small equities and little value except for its voting power.

**AM. LOCO.—Orders for 61 Engines**—This order for 61 engines for which the company reserved space several months previously, but which were not closed at that time, has been signed.

**AM. SMELTING—Increase in Mexican Operations**—Completed plans for an early increase in Mexican operations. It is stated the step would be welcome news not only to those interested in the company, but also to the Carranzistas, to whom it would afford a source of new revenue. Estimates have it that the company earned during 1917 $25 a share on the common.

**AM. SUGAR—Discussion of Extra Dividend**—There is little question about the ability of Sugar to pay a substantial extra on the common in cash if directors should deem this expedient.

The fiscal year to December 31, 1917, was the most profitable the company ever enjoyed, despite the slump in operations during the final quarter.

In 1916 company had a year of exceeding prosperity, earning 18.46% on its common after preferred dividends.

Profits in 1917 after excess taxes, which are likely to be fairly heavy, may reach $25 a share and some good authorities are inclined to place the total even higher.

Whether Sugar is to pay an extra or not is almost entirely a question of policy.

**AM. WOOLEN—Unfilled Orders**—Unfilled orders total between $85,000,000 and $90,000,000, or twice as much as in January, 1916, when it was booking heavy advance orders. Woolen can hardly help handling a turnover in 1918 of from $130,000,000 to $150,000,000, twice as much as the biggest year ever produced prior to the war.

Ever since the United States entered the war American Woolen had practically all the business it could handle. Although bookings for army and navy account have amounted to over $100,000,000, the demand has been so broad and so urgent that part of Pershing's force has had to be equipped abroad.

As inventorying has not been entirely completed in the 50 odd American Woolen mills, it is impossible as yet to arrive at 1917 earnings, but it would be no surprise if final net were close to $10,000,000, or the equivalent to $36 per share on the $20,000,000 common before war taxes. If this proves to be the case, American Woolen will have earned in two years a total of $63 for its equity stock.

**AM. WRITING PAPER CO.—Sinking Fund 5s.**—The first mortgage sinking fund 5s due July 1, 1919, selling around 80 yield about 23%. These are secured by a first mortgage on all the manufacturing plants, mill sites, water power mills and machinery.

In 1916, after allowing for bond interest and sinking fund charges, $2,524,378 was carried to surplus. Net working capital as of December 31, 1916, amounted to $8,280,059.

Earnings for 1917, after allowing for bond interest, are estimated at $1,500,000. The physical property of this company was recently appraised at about $14,000,000. Total assets applicable to the bonds is placed at $26,000,000. Banking interests are hopeful that the bonds will be paid off at maturity.

**ARMOUR & CO.—Earned $21.29 a Share**—This company's net income of $21,293,563 for the year ended October 27, 1917, was equal to $21.29 a share on $100,000,000 capital stock, against $20.10 a share in 1916.

Balance sheet, as of October 27, 1917, shows a profit and loss surplus of $56,126,679, compared with $36,833,117, October 27, 1916, and $98,733,117, October 27, 1915.

**BETHLEHEM STEEL—Earned $44.20 a Share, Year 1917**—After dividends on the 7% preferred balance available for the $59,448,000 common stock outstanding, for the year ended December 31, 1917, was equal to $44.20 a share. Company in 1917 made record-breaking deductions for depreciation, that item amounting to nearly $18,000,000, compared with $14,350,000 in the preceding year. Beth. Steel earned $70 a share on its present common in 1916 and $44 in 1917, making a total of $114 in the two years.

Chairman C. M. Schwab stated the company had not made any report in the preliminary statement for 1917 as to exact Federal taxes. He added, "and we are not going to publish them." He called attention to the fact that during 1916 the company was engaged in work for foreign governments in addition to Government business and domestic orders, whereas last year it was nearly all Government work. He also stated that the company had to make liberal depreciation allowances for plants. He continued: "Bethlehem is doing its bit and does not expect to make enormous profits from our Government while the war continues." All the new contracts are on a cost plus basis.

Mr. Schwab emphasized that no new financing is contemplated during 1918.

He concluded: "We are not worried as to where Bethlehem is going to obtain the necessary funds to complete the orders on its books."

Estimated orders on hand December 31, 1917, were $450,500,000, against $193,374,248 in 1916.

For 1915 unfilled orders were $175,432,000; for 1914, $46,513,000; for 1913, $24,865,000; for 1912, $29,282,000; for 1911, $15,885,000.

**EMERSON PHONOGRAPH—Forging Ahead**—Reports sales in January the largest since it began business. Dealers are taking hold at the new 35c. price for the 7-inch records, and are experiencing no difficulty in retailing to the public at the higher figure. Company's largest individual customer is S. S. Kresge Co.

**GENERAL CHEMICAL—Earned $42.95 a Share**—After dividends on preferred balance available for the $15,732,600 common for 1917 was equal to $42.95 a share, against $66.98 a share in the preceding year on $13,110,600 common. Balance sheet, as of December 31, 1917, shows a profit and loss surplus of $15,719,170, compared with $11,399,010 December 31, 1916.

**GOODRICH—Net, 1917, $10,425,000**—Reports net profits of $12,675,000 for 1917, before deduction of $2,250,000 estimated allowance for income and excess profits taxes. After deduction of taxes, net profits were $10,425,000, compared with $9,900,000 in 1916, and $12,265,000 in 1915. Allowing for dividends on the preferred, balance available for common was equal to $14.29, against $12.76 the preceding year.

**INTERNATIONAL NICKEL—Decline in Earnings**—Balance sheet, as of December 31, 1917, shows a profit and loss surplus of $2,005,102, compared with $4,933,258 December 31, 1916. After dividends on preferred, the balance available for the $41,834,600 common for the nine months ended December 31, 1917, was equal to $3.10 a share, against $5.94 a share in the same period of 1916.

**INTERNATIONAL PAPER—1917 Earnings $6,000,000**—Final figures will likely show that in its year to December 31, 1917, earned close to $6,000,000 for preferred and common. The $22,406,000 preferred is paying the full 6% cumulative dividend, which amounts to $1,344,360. On this basis, balance for the common would figure out something better than $25 a share. The 1916 balance for the common was 21.6%. This is before excess profits taxes. After these taxes it is doubtful if Paper will show more than $18 or $20 a share for its common.

**MONTGOMERY WARD—Earned $12.60, 1917**—After dividends on the preferred stock the balance of net profits for the year ended December 31, 1917, was equal to $12.60 a share on the 300,000 shares of common (no par value), against $14 a share in 1916.

**N. Y. AIR BRAKE—Earnings $50 Probable for 1918**—Company likely will make an excellent record in 1918. It is understood that unfilled orders on January 1 were between $50,000,000 and $55,000,000.

If the company were to make only a 10% profit on this it would earn over $50 a share on its $10,000,000 stock before excess taxes.

**POND CREEK COAL—Earning $5 a Share**—It is understood that the fiscal year to December 31, 1917 will show a little more than $5 a share for the 200,000 shares after interest and excess profits.

**SAVAGE ARMS—Earnings**—Company's balance of $807,579 for the quarter ended December 31, 1917, is equal to $9.14 a share on 88,355 shares of common stock. Earnings, year ended December 31, 1917, totaled $5,227,749. The balance after 1st and 2d preferred dividends was $1,433,569, or equal to $16.22 a share on the common. The surplus after common dividends was $1,035,971.

**SEARS, ROEBUCK & CO.—Earned $18.08 a Share, 1917**—After dividends on preferred net profits for 1917, available for the $75,000,000 common stock, were equal to $18.08 a share, against $26.79 and $17.56 a share in 1916 and 1915, respectively, both on $60,000,000 common stock. Balance sheet, as of December 31, 1917, shows a profit and loss surplus of $14,470,504, compared with $21,458,733 December 31, 1916, and $10,141,429 December 31, 1915.

**UNITED FRUIT—Interest and Dividends Earned in 3½ Months**—In the three and one-half months of its fiscal year to the middle of January, the company earned the entire year's interest on its bonds and a year's dividends at the 8% rate on its $48,792,000 capital stock.

United Fruit is still able to ship bananas to England and is having an average of two cargoes a month through its English subsidiary, Elders & Fyffes.

Up to the middle of January net profits were nearly 21% ahead of the same period of 1916-17.

# PUBLIC UTILITIES

## Montana's Largest Public Utility

### Montana Power Co. Fast Developing the Hydro-Electric Resources of That State—An Operating Ratio of Less Than 24 Percent—One of the Few Public Utilities Which in 1917 Had the Largest Earnings in Its History

By F. L. FONTAINE

A MERE review of the price fluctuations in Montana Power common stock over the last three years might lead one to think of it as one of the "War Brides." Just previous to the outbreak of the war this stock was selling between 41 and 50. In the fall of 1916, or about the time most of the "War Brides" reached their high levels, this stock sold at its highest point, 114⅞. It reacted with the market and in the disastrous break in the market in December last it sold down as low as 58¾, a decline of almost 50 per cent.

An analysis of the company proves that one could not be farther from the truth than in thinking of it in the terms of a "War Bride." It is one of the most promising and best managed public utility enterprises in the country. While the securities of the average public utility company in the last four years have depreciated in value, the securities of this company have actually increased in value. This statement applies particularly to the common stock. While the present price represents a decline from the high point of 1914, it is still much higher than the average price of three years ago.

#### Figures Are Deceptive

As a matter of fact the actual decline in the total value of this stock has been much less than the price range would indicate. That is to say, the actual market value of the total amount of stock outstanding has not depreciated to the extent indicated by these figures. Whereas in the fall of 1916 there was only $29,407,500 common stock outstanding and bearing dividends, there is to-day some $35,133,500 so outstanding. The stock rebounded very quickly from its low point of 1917 and before the close of the year sold at 66½.

To-day, at 72, the common stock has a market value of $25,295,900. This compares with a market value of $33,781,900 at the high of 1916 and with $32,596,600 at the high of 1917.

Both the first and refunding 5s and the 7 per cent preferred stock attained a substantial investment rating several years ago. They both return a substantial yield to-day. Undoubtedly a good deal of common was unloaded on the public above par both in 1916 and 1917. But the decline has doubtless shaken out most of the weaker holders.

#### A Hydro Electric Enterprise

The properties which were originally acquired and consolidated by the Montana Power Co. were started and partly developed by several of the biggest mining interests in Montana. John D. Ryan, recognized as one of the greatest copper men of the country, has been president of the company since it was organized in December, 1912.

The Montana Power Co. is one of the largest and most ambitious hydro-electric enterprises in the country. This, together with its able management, accounts for its ability to show increased earnings in a year like 1917. It was originally a consolidation of five operating electric power companies. One of these, the Butte Electric & Power Co. had been in business since 1901.

In addition to these it acquired and owns all of the capital stock of four other com-

panies, two of which are great hydro-electric enterprises which have been rapidly developed under this company's management. The principal one, and the largest is the Great Falls Power Company. The size of this subsidiary is indicated by the following facts.

**An Installed Capacity of 200,000 K. W.**

At the end of 1916 the company and its subsidiaries operated hydro-electric plants with an aggregate installed capacity of 153,530 kilowatts generating 205,000 horsepower, and steam plants with a capacity of about 6,000 k.w. and generating about 7,900 h.p. Total installed capacity therefore was about 159,500 k.w. with a generating capacity of about 212,900 h.p. During the past year additions totalling 60,000 k.w. with a generating capacity of about 78,000 h.p., have been made.

In other words the plants of this company and its subsidiaries to-day have an installed capacity of about 219,500 k.w. generating over 290,000 h.p. It owns or controls hydro-electric power sites still undeveloped, but which it is estimated will develop 121,500 k.w. or about 162,400 h.p. On December 31, 1916, it had in service 340 miles of steel tower lines of 100,000 volts, 574 miles of 11,000 to 60,000 volts pole lines, 570 miles 50,000 volts to 100,000 pole lines and 399 miles of 100,000 volts pole lines or a total of 1,883 miles of transmission lines. These figures indicate how large an enterprise it is.

The principal towns served are Anaconda, Butte, Billings, Boulder, Hot Springs, Great Falls and Helena. The company is fast developing into the most important industrial corporation in Montana. Its territory embraces the principal agricultural, timber and mining sections of the state and all the large cities and towns.

As the graph showing the statistical record indicates the company's capacity was greatly increased in 1915 and 1916. The reason that the number of customers did not increase in the same proportion as the connected load was that during these two years the company, on the completion of several big hydro-electric developments, began delivering current on several large contracts. One of these was with the Anaconda Copper Co. Another and the principal one was with the St. Paul railroad.

The electrification work on the mountain division of the St. Paul was completed in Feb., 1916, giving 437 miles of main line and 127 miles of sidings electrically operated. The Montana Power Co. immediately began delivering power under its contract for supplying power for this division. Undoubtedly in time the Great Northern and the Northern Pacific will electrify their roads through the mountains, promising another source of big revenue. As a result of supplying so much power at wholesale, the company, as the graphic shows, has greatly reduced its operating ratio. It increased last year because of factors over which the management has no control. With the return of more normal conditions it should again be reduced.

**MONTANA POWER (INCOME ACCOUNTS)**

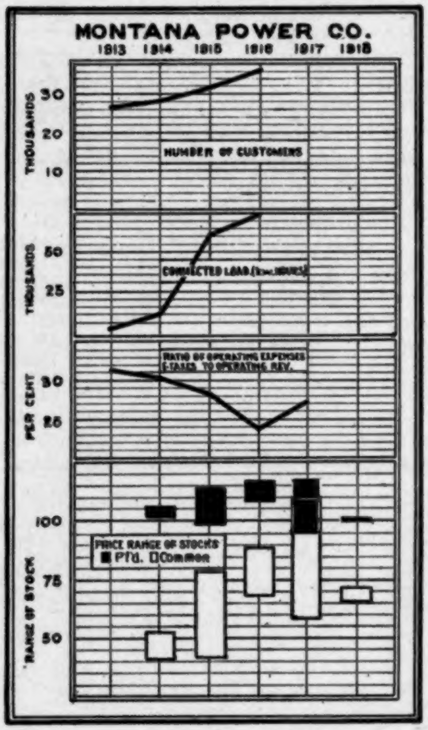
| | *1917 | 1916 | 1915 | 1914 | 1913 |
|---|---|---|---|---|---|
| Operating Revenue ..... | $5,140,154 | $6,219,148 | $4,231,223 | $3,720,601 | $3,532,162 |
| Operating Income ...... | 3,750,405 | 4,727,525 | 3,039,320 | 2,581,544 | 2,414,388 |
| Total Income ........... | ...... | 4,753,282 | 3,167,505 | 2,639,239 | 2,421,424 |
| Available for bond int... | ...... | 4,565,315 | 3,003,251 | 2,447,540 | 2,299,201 |
| Bond Interest .......... | ...... | 1,381,768 | 1,334,908 | 1,121,915 | 782,332 |
| Net Income ............ | 2,718,103 | 3,083,547 | 1,678,342 | 1,325,625 | 1,516,869 |
| Earned on Pref. ........ | **35.0% | 31.88% | 16.42% | 13.71% | 15.68% |
| Earned on Common..... | **7.88% | 8.54% | 3.73% | 2.42% | 3.13% |

*For nine months.
**At rate of.

**Capitalization**

The company has an authorized capital of $25,000,000 7 per cent. cumulative preferred stock and $75,000,000 common. There is now outstanding $35,133,500 of the latter and $9,671,800 of the former. There is also an authorized issue of $75,-

000,000 first and refunding 5 per cent. bonds, of which $17,040,000 is outstanding. In addition there are four issues of bonds of subsidiary companies, totalling $11,271,-000. The first and refunding 5 per cent. bonds are listed on the New York Stock Exchange and are rated as among the highest grade public utility bonds. They are secured by a first lien on the company's entire property as well as by deposit of $20,308,000 in securities of subsidiary companies. They now yield about 6 per cent.




The preferred stock has paid its regular dividend since organization. This stock, as well as the common, is also listed on the New York Stock Exchange. As the price range indicates practically since organization it has stood high about public utility preferred stocks. It has always earned its dividend by a substantial margin, particularly in the last two years. In 1916 net income was equivalent to 31.88 per cent. On the basis of the earnings for the first nine months the company earned better than 35 per cent. on this issue.

### More Stock to Come

The common stock began paying dividends in 1913 when it paid 2 per cent. It paid 2 per cent. in 1914 also, 2¼ per cent. in 1915, and 3½ per cent. in 1916. On July 2, 1917, a quarterly dividend of 1¼ per cent. was paid, which placed this issue on a 5 per cent. dividend basis. It therefore yields about 7 per cent. at the present price. Under a specified arrangement 145,-000 shares or $14,500,000 common stock not now receiving dividends will from time to time begin to receive dividends as follows: May 1, 1918, 25,000 shares, and 30,000 shares each on June 2, 1918, June 2, 1919, June 2, 1920, and June 2, 1921.

This means, of course, that in four years the supply of stock receiving dividends will increase over 40 per cent. It increased $5,500,000 or almost 19 per cent. last year. Yet the earnings of last year as indicated by the first nine months' statement increased sufficiently to almost make up for this increase in stock. There is little question that as the stock becomes subject to dividends the increase in earnings will be sufficient to take care of the increased dividend requirements.

Thus in 1916 there went into operation an increased generating capacity of 30,000 k.w. The increase of 60,000 k.w. last year should increase the revenues more than enough to take care of the increased dividend requirements. The analysis of earnings indicates the splendid progress made by this company. They need little comment. It is interesting to note, however, that of the increase of $1,688,200 in operating income in 1916, the Great Falls Power Co. supplied $1,071,200. This is the most important of the subsidiary companies and in future years promises to continue a most important revenue producer for the company.

The property is under the management of the Electric Bond & Share Co., which means that it has one of the best managements in the country. Its securities under present conditions yielding substantial returns as they do, appear on the bargain counter. They may be considered as peace stocks, yet they show an earning power even in war time that warrants their consideration.

# Bargain Indicator of Public Utilities

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

| | Present Div. Rate | Dividend Yield on Recent Price | Dollars Earned Per Share 1912 | 1913 | 1914 | 1915 | 1916 | 1917 | Recent Price | Earnings Last Fisc. Year on Recent Price | INTENDING PURCHASERS should read all notes carefully and consult "Investment Digest." We gladly answer all inquiries of yearly subscribers. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Common Pr. Ry. & Lt., com. | $0 | 0.00% | 6.74 | 7.44 | 6.28 | 7.42 | 8.80 | 6.79* | 22 | 30.86% | Army cantonments increase revenue. |
| United Light & Ry., com. | 4 | 14.03 | ..... | 4.74 | 3.74 | 2.41 | 4.41 | 8.44* | 28½ | 29.61 | Dividend maintenance uncertain. |
| Cities Service, com. | 6 | 2.81 | 9.29 | 10.71 | 11.28 | 15.27 | 36.74 | 59.14* | 213 | 27.76 | Oil contributes to good earnings. |
| Am. Pub. Util., com. | 0 | 0.00 | ..... | 5.85 | 4.69 | 3.83 | 5.35 | 7.18 | 27½ | 26.10 | Dividends not near. High tension line saves coal. |
| Phila. Co., com. | 3 | 12.00 | 6.50 | 5.41 | 4.95 | 4.44 | 5.14 | 6.22 | 25 | 24.88 | Earnings improving. Pittsburgh Rys. default clears outlook. |
| Northern States Power, com. | 7 | 11.38 | ..... | ..... | ..... | 3.22 | 5.91 | 14.99* | 61½ | 24.37 | Favorable as Hydro-Electric Co. Large gross earnings. |
| So. Cal. Edison, com. | 7 | 8.86 | 5.35 | 7.56 | 6.07 | 6.71 | 8.61 | 18.80* | 79 | 23.79 | Improvement in earnings. |
| Rep. Ry. & Lt., com. | 4 | 17.02 | ..... | ..... | 1.95 | 2.97 | 3.55 | 5.18* | 23½ | 22.04 | Increased rate will help out. |
| Ohio Cities Gas | 5 | 12.34 | ..... | ..... | ..... | 1.92 | 2.30 | 8.70 | 40½ | 21.48 | War taxes hurt. Peace will help Co. |
| Am. W. W. & El., 1st pfd. | 7 | 11.47 | ..... | ..... | ..... | 9.57 | 10.18 | 12.96 | 61 | 21.24 | Now on dividend basis. |
| Detroit United Railway | 8 | 8.88 | 16.40 | 17.04 | 13.16 | 15.69 | 23.05 | 15.85* | 90 | 17.61 | Government price regulation should benefit. |
| Columbia Gas & Electric | 4 | 11.42 | 0.16 | 0.25 | 0.59 | 0.76 | 2.31 | 5.87* | 35 | 16.77 | 1917 earnings show good improvement. |
| Brooklyn Rapid Transit | 6 | 13.40 | 8.28 | 9.17 | 7.14 | 7.40 | 7.53 | 6.97 | 44¾ | 15.34 | Early maturing obligations an unsettling factor. |
| Consol. Gas Balt., com. | 8 | 8.12 | 13.12 | 15.27 | 11.43 | 11.56 | 13.89 | 15.02 | 98½ | 15.24 | Earnings good. |
| Pacific Gas & El., com. | 0 | 0.00 | —1.17 | 2.84 | 7.78 | 10.48 | 9.10 | 5.03* | 34 | 14.79 | Dividend passed. High oil prices hurt. |
| Western Union Telegraph | 6 | 6.66 | 4.01 | 3.24 | 5.38 | 10.19 | 13.59 | 12.79* | 90 | 14.21 | War taxes offsetting abnormal prosperity. |
| Montana Power, com. | 5 | 7.14 | ..... | 3.13 | 2.42 | 3.73 | 9.20 | 8.39* | 70 | 11.98 | Expanding business. Record earnings. |
| Mass. Gas., com. | 7 | 8.69 | 4.34 | 5.20 | 5.15 | 5.13 | 5.53 | 8.91 | 80½ | 11.06 | December earnings decreased 50%. |
| Detroit Edison | 8 | 7.92 | 7.84 | 8.34 | 10.52 | 13.68 | 13.72 | 10.26* | 101 | 10.15 | Slightly decreased earnings. Peace will help. |
| Am. Lt. & Trac., com. | 10 | 4.62 | 26.05 | 25.09 | 22.32 | 24.62 | 25.66 | 20.77* | 216 | 9.61 | Benefited by coal price reductions. |
| Pac. Tel. & Tel., com. | 0 | 0.00 | 0.63 | 1.87 | 1.89 | 0.56 | 1.25 | 1.79* | 19 | 9.42 | Franchise rights of Inc. States Tel. sought. |
| Twin City R. T., com. | 6 | 9.23 | 7.44 | 8.69 | 8.05 | 6.83 | 9.22 | 6.02* | 65 | 9.26 | Dividend in no immediate danger. Strike settled. |
| Hav. El. Ry., Lt. & Pow. Co., com. | 6 | 5.25 | 4.21 | 6.33 | 6.09 | 8.94 | 10.17 | 8.66* | 95 | 9.11 | 1917 earnings improve. Progressing steadily. |
| Am. Tel. & Tel. | 8 | 7.44 | 9.86 | 9.59 | 9.38 | 9.52 | 9.77 | 9.67* | 107½ | 8.99 | Margin over dividends considered ample. |
| Kings Co. El. L. & P. | 8 | 8.42 | 9.52 | 9.29 | 10.85 | 11.66 | 11.88 | 8.40* | 95 | 8.84 | Increased expenses hurt. |
| Mackay Co., com. | 6 | 7.84 | 5.06 | 5.09 | 5.25 | 5.28 | 5.36 | 6.35 | 76½ | 8.30 | Wireless telegraphy competition expected. |
| Third Av. Ry., com. | 0 | 0.00 | 0.08 | 4.25 | 3.78 | 4.19 | 5.98 | 0.00 | 20 | 0.00 | Improvements in earnings. |
| NO 1917 ESTIMATES AVAILABLE. | | | | | | | | | | | |
| Am. Power & Light, com. | 4 | 8.42 | ..... | 6.01 | 5.24 | 4.21 | 6.37 | ..... | 47½ | ..... | Slight increases in earnings. |
| Cons. Gas of N. Y. | 7 | 7.60 | 8.91 | 8.50 | 8.40 | 9.29 | 8.99 | ..... | 92 | ..... | High operating costs. |
| Laclede Gas Lt., com. | 7 | 8.23 | 8.40 | 8.16 | 8.20 | 9.24 | 11.21 | ..... | 85 | ..... | Earnings ample for dividends. |
| North Amer. Co. | 5 | 11.11 | 7.15 | 7.01 | 6.41 | 6.06 | 7.26 | ..... | 45 | ..... | Interested Un. Rys. of St. Louis. |
| Peoples Gas Lt. & Coke | 0 | 0.00 | 7.54 | 8.25 | 8.55 | 8.39 | 5.39 | ..... | 52 | ..... | Turn for better expected. |
| Pub. Ser. Corp., N. J. | 8 | 7.69 | 8.21 | 8.99 | 6.50 | 7.88 | 11.77 | ..... | 104 | ..... | Increased operating expenses. |
| Standard Gas & El., pfd. | 3 | 13.63 | 7.39 | 3.19 | 2.63 | 3.15 | 5.03 | ..... | 22 | ..... | Dividend margin weak. |

*Estimated.

# MINING AND OIL

## Long Range View of Oil Situation

### What Peace May Accomplish—Exports and Prices—Declining Stocks—The Future

By J. W. SMALLWOOD

THE oil industry of the United States has prospered since the beginning of the war in Europe and while it seems to be the consensus of opinion among authorities in the oil trade that peace should result in a further development of the industry there are probably many investors who are doubtful as to the prospects for continued prosperity on the part of the oil companies with the return of peace.

A clearer understanding of the peace prospects of the oil industry can be obtained by first analyzing the factors which have affected the industry in recent years prior to and since the beginning of the war in Europe.

### The Export Situation

The export situation naturally assumes a leading place in any consideration of present conditions. Exports of petroleum have shown a considerable growth since the beginning of the war and reached a new high record in the year 1917. Government figures show that exports of all petroleum products for the year ended December 31, 1917, amounted to 2,645,362,368 gallons, compared with 2,607,491,209 gallons in 1916 an increase of only 1.5%. Our petroleum exports for the year ended June 30, 1914, the fiscal year immediately preceding the war, amounted to 2,281,611,065 gallons, and the figures for the corresponding period of the 1917 fiscal year—2,749,438,434 gallons—show a growth of about 20% over the pre-war figures.

But this expansion of exports since the war does not indicate that the war has benefited the oil trade, as exports had been showing a healthy year-to-year growth previous to the war. While at the end of three years of war our total oil shipments show an increase of 20%, a review of the three years preceding the war shows that 1914 exports were 41% larger than those of 1911. From these figures it is apparent that our oil exports during the war period have not increased to as large an extent as would have been the case in peace times. The value of exports since the beginning of the war have shown more than a normal increase but the increase in values also reflects such items as increased cost of cases and barrels.

A more careful study of export statistics shows that the character of our foreign shipments has been considerably changed during the war period. For the fiscal year ended June 30, 1917, illuminating oil shipments amounted to 835,114,403 gallons, compared with 1,157,283,310 gallons in the year ended June 30, 1914. During the period since the outbreak of the war there has been a falling off in kerosene shipments of 422,168,907 gallons or almost 40%.

**TABLE A—PETROLEUM EXPORTS**

| Year Ended Dec. 31 | Quantity (Gals.) | Incr. % | Value | Incr. % |
|---|---|---|---|---|
| | | War Period | | |
| 1915 | 2,329,575,617 | 4.0 | 142,972,322 | 2.2 |
| 1916 | 2,607,491,209 | 11.9 | 201,732,563 | 41.0 |
| 1917 | 2,645,362,368 | 1.5 | $253,027,075 | 25.4 |
| Year Ended June 30 | | Pre-War | Period | |
| 1912 | 1,792,665,038 | 10.9 | 112,472,100 | 14.6 |
| 1913 | 1,989,772,713 | 10.9 | 137,237,762 | 22.0 |
| 1914 | 2,281,611,065 | 14.6 | $152,174,056 | 10.9 |

In the 1917 period gasoline exports totaled 425,703,130 gallons, compared with 192,452,267 gallons in 1914, an increase of 120%. It is evident that the foreign demand for gasoline has shown more than a normal development since the beginning of the war, but on the other hand illuminating oil shipments which have always

been considered the backbone of the export trade have shown a substantial decline.

This falling off in illuminating oil exports has been principally due to the fact that in peace times Belgium, Holland and Germany furnish one of the biggest markets for American illuminating oil. In the year ended June 30, 1914, the Netherlands took 176,810,812 gallons of kerosene, Belgium received 56,404,169 gallons and 79,-471,322 gallons were consigned to Germany. For the 1917 fiscal year we shipped 45,671,563 gallons of kerosene to the Netherlands, while no shipments were made to Belgium or Germany. The scarcity of marine transportation facilities and the high ocean freight rates have also affected kerosene shipments and have seriously interfered with exports of this product to our big markets in the Far East.

While the oil companies have generally shown large earnings since 1915, for a considerable time after the outbreak of the war they were seriously concerned over their increasing supplies of kerosene. This product piled up in tremendous quantities, with the partial cessation of foreign shipments, and at one time it could be purchased from the mid-continent refiners at less than two cents a gallon. By using the latest

TABLE B—COMPARISON OF FOREIGN AND DOMESTIC CONSUMPTION OF PETROLEUM.

January 1 to September 30, 1917.

| | Total Refinery Output (Gallons) | Exports (Gallons) |
|---|---|---|
| Crude Oil Run.. | 9,420,428,598 | 1,893,162,575 |
| Gasoline ......... | 1,962,205,420 | 291,681,108 |
| Kerosene ........ | 1,226,118,966 | 486,962,230 |
| Lubricating ...... | 533,700,128 | 199,983,904 |
| Gas & Fuel Oil | 4,548,676,207 | 795,196,719 |

improved methods of refining the larger companies have been able to considerably increase their gasoline output without a corresponding increase in the extraction of kerosene and recently many refineries have also been able to reduce their kerosene surplus owing to the great demand for that product caused by the fuel shortage.

## Production

We have given conditions in the export trade first consideration because there is a more or less widespread impression that the oil industry has enjoyed a wonderful growth in foreign trade since the beginning of the war and that the present prosperity is largely a result of our enormous shipments to fulfill the Allies' war needs. The complexion of our export trade has shown a big change in the last three years and our shipments of petroleum products, especially gasoline, to the Allies is limited only by the shipping facilities available. But after all, less than 25 per cent of the output of our refineries goes abroad and more than 75 per cent of the product of our oil wells is consumed at home, even in war times.

On Sept. 30, 1917, there were 234 refineries in active operation in the United States with a total crude oil consuming capacity of 1,085,455 barrels daily, and this number has been considerably increased since that time. What has made necessary the enormous growth in refining facilities in this country in recent years? Principally the domestic demand for gasoline. The increase in the production of gasoline in the United States since the beginning of the present century, together with the exports and apparent domestic consumption from 1899 to date have been as follows:

| Year | Production | | Exports | Difference |
|---|---|---|---|---|
| 1899.... | 6,680,000 | Bbls. | 297,000 | 6,383,000 |
| 1904.... | 6,920,000 | " | 594,000 | 6,326,000 |
| 1909.... | 12,900,000 | " | 1,640,000 | 11,260,000 |
| 1914.... | 34,915,000 | " | 5,000,000 | 29,915,000 |
| 1915.... | 41,600,000 | " | 6,500,000 | 35,100,000 |
| 1916.... | 48,910,000 | " | 8,500,000 | 40,410,000 |

The tremendous increase in consumption of gasoline in this country has, of course, been due to the remarkable development of the internal combustion engine. It is hardly necessary to point out here that in 1899 there were 10,000 automobiles in use in the United States, and that in 1913 there were over a million cars in operation. By 1917 the number of automobiles registered had grown to 3,500,000 and at the beginning of 1918 the number had crossed the 4,000,000 mark. It is the motor fuel demand built up by the almost universal use of automobiles in this country on which the oil trade has come to be chiefly dependent. Should the war continue for a long period it is conceivable that war-time economies might result in a considerable curtailment in operation of motor cars for pleasure purposes and despite our enormous military requirements such a condition might possibly

result in a net decline in the demand for gasoline—that is the demand that could be easily supplied. On the other hand should peace come in the near future there is every indication that the use of automobiles in this country would continue to expand and that the domestic consumption of gasoline, which has come to be regarded as the backbone of the oil industry, as a whole would not be adversely affected.

### Prices

While considering the sensational growth in the demand for motor fuel during the last few years it is also quite pertinent to point out the effect which this demand has had upon the price of the product. The wholesale price range for gasoline in New York for the past five years has been as follows:

GASOLINE PRICES

| | 1917 | 1916 | 1915 | 1914 | 1913 |
|---|---|---|---|---|---|
| High..... | 24c. | 24c. | 21c. | 16c. | 17c. |
| Low...... | 21c. | 21c. | 12c. | 12c. | 16c. |

Gasoline prices at the present time are holding at their high record level, but it is apparent that prices have shown no abnormal increase since the beginning of the war. It is remarkable that the oil industry has been able to keep the price for motor fuel within such narrow limits in recent years and but for improved refining facilities making possible a higher yield of gasoline from crude oil, it would have been absolutely impossible to keep the price of gasoline anywhere near its present level and at the same time fill the ever-expanding appetite for motor fuel. More remarkable is the record of the petroleum industry in supplying the nation's gasoline requirements at moderate prices when the advance in the cost of the raw material is considered. The price range for the two principal grades of crude oil from 1914 to date has been as follows:

PENNSYLVANIA

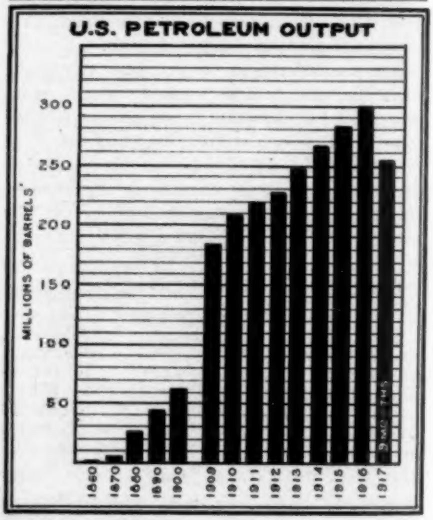
| | 1917 | 1916 | 1915 | 1914 |
|---|---|---|---|---|
| High ...... | $3.75 | $2.85 | $2.25 | $2.50 |
| Low ...... | 2.95 | 2.25 | 1.35 | 1.45 |
| Average ... | 3.259 | 2.505 | 1.59⅝ | 1.89 |

MID-CONTINENT

| | 1917 | 1916 | 1915 | 1914 |
|---|---|---|---|---|
| High ...... | $2.00 | $1.55 | $1.20 | $1.05 |
| Low ...... | 1.40 | .90 | .40 | .55 |
| Average .. | 1.808 | 1.26 | .56⅕ | .77⅝ |

The price of crude oil has risen rapidly especially during the last year owing to the tendency of the older oil fields to decline in output and failure to find new pools to fully meet the growing demands upon the oil industry. But while the advance in crude prices in 1917 has been abnormal the price of the commodity is far from being top-heavy and seems likely to remain firm until some new important source of supply is discovered.

It is doubtful if we will ever again see real low prices for crude oil owing to the ever-broadening demand for petroleum products. A good instance of the present solid foundation of the industry has been furnished within the last few months. The railroad congestion has had a serious effect upon deliveries of petroleum. Under normal railroad conditions deliveries by tank cars are about 18,000,000 barrels monthly, while in December deliveries amounted to only 12,400,000 barrels, a decrease of 36 per cent and in the first half of January deliveries decreased 45 per cent. Such a serious interruption to normal operations in ordinary times would almost surely have been reflected in a reduction in both crude and refined prices, but the present temporarily unsettled condition has had absolutely no effect upon prices.




### The Future

The production situation must be seriously considered in any attempt to forecast

the future. There have been times when an excess of production coupled with a slight falling off in consumption has resulted in a period of temporary depression. It is impossible to say definitely when a new pool may be developed, but the likely sources of oil supply in this country have been pretty well tested, especially during the last few years with the incentive of record high prices for crude. Production has increased somewhat but it has been unable to keep pace with the demand and during the last two years the reserve supply of crude oil has been seriously reduced. In 1916 crude oil production amounted to 300,767,158 barrels and consumption 312,438,599 barrels. In 1917, production amounted to 341,800,000 and consumption was approximately 362,000,000 barrels. Crude oil stocks in the last two years have been drawn on to the extent of 33,000,000 barrels and by the close of 1917 the country's reserve supply had been reduced close to the 150,000,000 barrel mark. There is every reason to believe that the oil industry will never again be in a position to fulfill the enormous demands which have been created in recent years without constantly developing the country's petroleum resources on the largest scale possible.

To sum up the prospects of the oil industry in the event of an early ending of the war, it seems reasonable to predict a temporary falling off in gasoline exports as there would not be the same urgent need for this product with the cessation of war operations. This decline in exports would probably be much more than offset by increased domestic demands.

The indications are that peace will result in a big increase in shipments of illuminating oil to Europe and other foreign countries, especially the Far East. Exports of kerosene would only be limited by the shipping facilities obtainable.

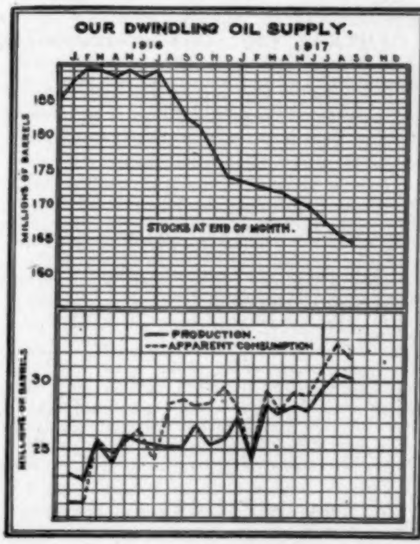
Following the conclusion of hostilities a large number of tankers now used in bunkering the Allied fleets will again be released and this, together with the vessels now under construction will make it possible to carry on a larger foreign oil trade than ever before.

There will undoubtedly be a great expansion in the use of fuel oil for marine transportation but this will principally affect the Mexican fields.

Finally, it will probably be found that the development of the internal combustion engine for war purposes will result in an even broader use of mechanical transportation with the return of peace. There should be an especially large development of the farm tractor and motor truck.

### Outlook for Stocks

The oil securities have declined since our




entrance into the war. During the past year most of the oil stocks have been uninfluenced by increasing earnings and bullish features within the industry and the market has been governed by conditions outside of the oil trade. With the return of peace the bugaboo of government regulation and price fixing would be removed, and at the same time stockholders could probably look forward to a reduction in taxes and the removal of other uncertainties which have caused apprehension among investors. Under such conditions it is probable that the value of oil securities would be influenced more by the factors within the industry and affecting the individual companies.

# Oil Notes

*These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.*

**ANGLO-PERSIAN—Capital Increased—** Has increased its capital from $29,199,000 to $34,065,500 and closed a contract for over 12,000,000 tons of fuel oil. The Indian Government, it is stated has decided to use oil instead of coal on its railroads in the western section. The company also will more than double its production of gasolene.

**BARNETT — Earnings —** Report, six months ended November 30, 1917, shows gross profits of $384,558, net profit of $346,548, and net income for the period of $237,947. Unofficially, the company is reported to be earning around 50% on its outstanding capitalization.

**CENTRAL CAL. GAS—Assessment of $5 a Share—**Directors have announced an assessment of $5 a share on the pfd. and common stock, payable immediately and becoming delinquent Feb. 25. The date of sale for stock on which the assessment is paid is set for March 20.

**FEDERAL—New Contract With Ohio Oil—**Has negotiated a new contract with Ohio Oil whereby the latter will pay from $2.30 to $2.55 a barrel for oil received. Daily output of Federal Oil Co. is estimated at 1,000 barrels. There are about 80 wells producing.

**EUREKA PIPE LINE—Earning $22.23 a share—**Report, Year Ended Dec. 31, 1917, shows net profits of $1,111,883, against $1,322,069 for the preceding year. Net profit for 1917 was equal to $22.23 a share on $5,000,000 capital stock outstanding, against $26.44 a share in 1916 and $19.84 a share in 1915.

Balance sheet shows profit and loss surplus $4,465,767, compared with $4,553,887 December 31, 1916.

**GALENA-SIGNAL — Capital Increase—** Plans to increase its common stock from $12,000,000 to $30,000,000 for the purpose of acquiring additional properties in Texas and shipping facilities.

**LIBERTY OIL—Capital Increased—** Filed notice at Olympia, Wash., of an increase in capital stock from $1,000,000 to $1,500,000.

**MEXICAN EAGLE OIL—Prosperous Year—**Income account, year ended June 30, 1917, compares as follows, all figures being stated in Mexican gold pesos:

| | 1917 | 1916 |
|---|---|---|
| Trading profits | $20,521,648 | $18,082,411 |
| Dept. and Int. | 7,803,883 | 7,813,765 |
| Total income | $12,948,398 | $10,268,646 |
| Reserves | 2,072,420 | 1,463,432 |
| Dividends | 5,000,000 | 4,000,000 |
| Surplus | $5,875,978 | $4,805,214 |
| Total surplus | $11,503,419 | †$9,627,441 |

†Of this amount $4,000,000 was appropriated for final dividends of 16% on the preference and ordinary capital stock, making a total of 32% for the year, and thereby reducing total surplus to $5,627,441.

**OKLAHOMA P. & R.—Earnings Statement 32% on $10,000,000—**Company and subsidiaries' earnings in 1917 were equal to 75 cents a share on the $9,570,440 capital stock of $5 par value. Net profits amounted to $1,439,428, with a surplus of $406,100. Gross earnings were $3,246,491. The company earmarked $319,025 for war taxes.

**MEXICAN PETROLEUM—Wrecked Boat Not Total Loss—**Company's tank steamer, the "George E. Paddleford," which was wrecked on the breakwater at the mouth of the Panuco River in Mexico, is not a total loss, the company expecting to repair the boat and eventually put it back into the service again.

**PENN GASOLINE CO.—Pipe Lines and Plants —** About 80 miles of trunk and gathering lines have been laid thus far, and about 25 miles more will be installed as soon as weather conditions permit.

Three fully equipped gasoline plants are now in operation, one at Bradford, Pa., one at Guffey, Pa., and one at Bolivar, N. Y., having a combined capacity of 3,600,000 gallons of commercial gasoline per annum.

**PURE OIL—Earnings—**Earnings statement, Six Months Ended Nov. 30, 1917, shows: Gross, $5,704,688; net, $919,022; surplus after depreciation, $773,328; total surplus, $6,768,419; final surplus after dividends, $6,041,268. Balance sheet as of Nov. 30, 1917, shows cash amounting to $948,827, and total assets and liabilities of $11,627,486.

**SINCLAIR OIL—800-Mile Pipe Line—** Company's 800-mile pipe line from Cushing, Okla., to East Chicago, Ill., should be in working order early in February, 1918. The refinery in course of construction at the latter place also will start operations at the same time. The company will be two years old in June, 1918. Its growth has been rapid, but it was an uphill fight all the way. Sinclair's expansion was put through in a period which witnessed the highest material and construction prices in history, and the work was carried on under the most adverse circumstances. Sinclair has nine refiners 1,300 miles of trunk and gathering lines, and about 3,000 tank cars.

**SINCLAIR GULF—Improved Earnings —**Balance sheet, as of Nov. 30, 1917, shows a profit and loss surplus of $3,463,439, compared with $667,754 May 1, 1917.

**STANDARD O. OF CAL.—Land Reported Optioned for New Operations—** Company is reported to have optioned land in the vicinity of Suisun in the vicinity of Fairfield, Solano County, Cal., with the evident purpose of drilling gas wells and possibly oil.

# Low Priced Mining Stocks of Merit

## Review of Howe Sound—Copper and Silver Mining—How to Invest in Mining Stocks

By VICTOR DE VILLIERS

THE first dividend paid by a mining company marks the beginning of the end. Each is a milestone on the road to Mine Exhaustion: to the Mausoleum marked "Finis." The same is true of any industry which takes the gift of nature, transmutes it into currency, and merely distributes the result. Something is taken from nature; nothing is given back. The pound of copper, coal or gold, the carat of diamond, the barrel of oil, taken from the ground makes the property that much poorer. Consequently, the shareholders' equity is being reduced in proportion to the output, *each day, each hour.*

*A mining or oil producing company is a liquidating and distributing proposition.* It is a one-sided partnership with Dame Nature who supplies the goods, and the company which distributes them: giving nothing in return. By the law of compensation the penalty is exhaustion and death.

When an investor buys a share in a mining or oil company he becomes a junior partner in the plundering process which might continue for five, fifty, or a hundred years; but the day of reckoning must come. The feast is temporary. Those who participate might beat the bountiful senior partner to it, by getting back the investment and something over. The calculating, initiated investor usually does. The average investor loses the unequal contest.

In its strictest sense, a mining or oil investment does not pay "dividends." It makes periodical distributions. The first five to twenty of these distributions are necessary in the first place to repay the principal, without interest. The remaining distributions represent interest and profit. How many distributions are you assured of? What guarantee have you against flooding, "pinching out," errors of judgment (engineering as well as managerial), or the baffling contrariness of nature's "indications," which can in a very short while turn a producer into an expensive hole in the ground? These distributions are called "dividends" by habit or custom, but the wise investor will always substitute the word "distribution" for "dividend."

*Mining shares distribute their reserves and substance at intervals, as steps towards final liquidation.*

The difference between the mine which has already closed down and any issue discussed in this series is this: the former is a "has been," while the other is going to be in that class at some future date. Ultimate exhaustion is certain. The date of the final "dividend" is the speculative uncertainty which injects the unknown quantity into the fascinating occupation of picking the winners among the mining issues.

**TABLE I—APPROXIMATE HIGHS AND LOWS OF FORMER SPECULATIVE MINING FAVORITES.**

| | High | Recent Low |
|---|---|---|
| Alaska Gold | 40 | 1 |
| *Goldfield Con. | 10 | ½ |
| Green Monster | 8 | 1 |
| Quicksilver | 7 | ¼ |
| *Tonopah Ex. | 7 | 1 |
| Jerome Verde | 3 | ½ |
| *Jumbo Extension | 4 | ⅛ |
| *Hecla | 9 | 3 |
| *Butte & Superior | 105 | 12¾ |
| *Crown Reserve | 4 | ¼ |
| Chile Copper | 40 | 11¼ |
| *Tennessee Copper | 70 | 11 |

*Dividend payers.

There is a further and more important difference between the issues discussed in this series, and that Kalso Mining Consolidated stock with the purple border and gold label that you might own, or contemplate buying, on some Get-Rich-Quick Wallingford's assurance that "it is another United Verde." The difference is, that the issues discussed are going to give you a good fighting chance for your money; they are "mining stocks of merit." Note that they are not labelled "investments of merit."

Their selection is based upon merit, in their class: they are likely to become substantial producers in good time, and "has beens" some day. Kalso Mining Consolidated, together with about 99% of mining stocks bought by the unitiated, are in the "never-was-and-never-will-be" class.

Buying honest-to-goodness low-priced mining stocks in the early stages of development is sane speculation. Buying because "the yield is high," through a tip, a "market letter" boost, or apparent cheapness, is sheer folly.

Would-be investors without surplus funds, and without money to risk—and lose if necessary—should not permit themselves the thrill of anticipation of doubling, trebling and quadrupling their money by a timely purchase of mining stocks. They should not buy a single share without making provision for the amortization of the capital invested, by setting aside all "dividends" received in excess of a normal interest return, as a sinking fund to repay the principal invested.

Many chapters have been written in THE MAGAZINE OF WALL STREET on the subject, and we hope to recapitulate the fundamental principles of amortization, later in this series. Mining stocks cannot be conservatively purchased without an understanding of the purpose of amortization, and the method of application to individual issues.

Meanwhile, the discriminating investor might study the following Table I herewith, as a possible antidote to any bullish over-enthusiasm which Table I of the February 2d issue of THE MAGAZINE OF WALL STREET may have unwittingly engendered. The list is by no means complete or thoroughly representative. It is presented to make evident that a "dividend-payer" is not necessarily an "investment," and that buying mining stocks can be a hazardous, expensive pastime, unless the tour through the group is very personally conducted by a guide who knows the true inwardness of mining stock speculation.

**TABLE II—HOWE SOUND-BRITANNIA MINING CO.**

**CONDENSED COMPARATIVE BALANCE SHEETS 1914, 1915 and 1916 AS AT DECEMBER 31st OF EACH YEAR**

| | Howe Sound | *Britannia Co. | |
|---|---|---|---|
| **Assets:** | 1916 | 1915 | 1914 |
| Mining property | $6,797,603 | $2,120,944 | $1,744,890 |
| Plant, buildings and machinery | 3,328,076 | 2,543,849 | 2,067,343 |
| Marine equipment | 101,706 | | |
| Investments in subsidiaries, stores, power companies, railway and water supply | 719,782 | 405,738 | 384,949 |
| Inventories | 341,247 | 124,289 | 127,614 |
| Product in transit | 478,401 | | |
| Bills receivable | 6,158 | 6,158 | 6,158 |
| Accounts receivable | 194,366 | 220,686 | 46,623 |
| Taxes paid in advance | 910 | 524 | 370 |
| Cash | 734,580 | 56,456 | 34,041 |
| | $12,702,833 | $5,478,645 | $4,411,993 |
| **Liabilities:** | | | |
| Capital stock outstanding | *$1,984,150 | $2,299,150 | $1,625,000 |
| Bonds outstanding | 5,111,000 | | |
| Reserves for depreciation and insurance | 1,627,853 | 926,665 | 619,825 |
| Current liabilities (accounts payable, etc.) | 411,141 | 191,275 | 850,135 |
| Notes or loans | 550,000 | 1,239,966 | 689,680 |
| **Surplus | 3,018,688 | 821,589 | 627,351 |
| | $12,702,833 | $5,478,645 | $4,411,993 |

* Capital of Howe Sound unchanged 1914-1916: owns Britannia Co.

**Balance Dec. 31, 1914, $627,351; Profit 1915, $194,238; Profit 1916, $1,574,860; Total Surplus, $3,018,688.

### Howe Sound—A Copper-Silver

The Howe Sound Company, usually regarded as a copper producer, is in reality a copper-silver enterprise, and, like Anacon-

da, holds the trump cards in the game of mining: the "King" and "Queen" described in our February 2d issue.

Chartered in 1903 as a holding corporation for the Britannia Mining & Smelting Co., Ltd., of Canada—a copper producer, it owns the outstanding stock of the latter, and controls its subsidiaries, the Britannia Power and Howe Sound Power Companies. This constitutes the copper-producing business of the company.

The company also owns practically all the outstanding stock of El Potosi Mining Company of Mexico—a silver producer—and through the latter, its subsidiary, the Chihuahua Mining Company. This is the silver end of the enterprise.

The authorized share capital is $3,000,000. There is outstanding 1,984,150 shares ($1 par). There are also $5,111,000 20-year 6% bonds (authorized $6,000,000) issued in 1915 to purchase the El Potosi property.

The Britannia property is an important Canadian producer, aggregating 20,639 acres of mineral claims, 4,336 acres of timber lands, and 17 beach lots at Britannia Beach, Howe Sound, British Columbia. The ore bodies are developed on about 100 acres. The rest of the large mineralized zone within the 25,000 acre property is unexplored.

Equipment, concentrating mill, power houses, compressors, plant and machinery are modern and adequate. Their valuation stood at $3,328,076 at the end of 1916, during which year $1,000,000 was reported as expended in new construction.

**TABLE III—1917-1916 COMPARISON—COPPER OUTPUT OF REPRESENTATIVE PRODUCERS.**

| | Estimated 1917 | Actual 1916 |
|---|---|---|
| **ARIZONA:** | | |
| Phelps-D. | 165,000,000 | 152,263,729 |
| Inspiration (a) | 80,050,000 | 120,772,637 |
| Ray Cons. | 92,200,000 | 74,983,540 |
| Un. Verde (b) | 70,000,000 | 58,299,573 |
| Un. Verde Ex. (b) | 60,000,000 | 36,402,972 |
| Cal. & Arizona | 59,250,000 | 74,898,788 |
| New Cornelia (c) | 20,000,000 | ........ |
| Miami | 42,000,000 | 53,433,863 |
| Ariz. Copper | 34,000,000 | 47,884,000 |
| Old Dom. | 21,085,691 | 32,507,042 |
| Shat. Arizona | 12,158,705 | 18,161,763 |
| Shannon | 6,200,000 | 9,364,968 |
| Con. Arizona (d) | 19,560,000 | 11,989,139 |
| Magma (e) | 10,258,000 | 8,473,580 |
| Arizona Com. | 4,000,000 | 4,178,474 |
| Iron Cap | 5,000,000 | 1,871,671 |
| **MONTANA:** | | |
| Anaconda (f) | 253,000,000 | 331,893,273 |
| North Butte | 14,006,000 | 24,498,181 |
| East Butte | 19,500,000 | 18,340,713 |
| Davis Daly | 4,161,012 | ........ |
| **UTAH:** | | |
| Utah Copper (g) | 204,800,000 | 187,531,824 |
| Ohio Copper | 5,400,000 | ........ |
| Utah Cons. | 9,000,000 | 12,211,118 |
| **MICH. (LAKE):** | | |
| Cal. & Hecla | 79,266,484 | 83,368,860 |
| Copper Range | 45,299,173 | 54,747,498 |
| Quincy | 21,500,000 | 21,065,612 |
| Mohawk | 12,142,386 | 13,834,034 |
| **MICH. (LAKE):** | | |
| Wolverine | 5,163,979 | 6,185,753 |
| Ahmeek | 28,183,024 | 24,142,158 |
| Allouez | 9,039,660 | 10,219,290 |
| Isle Royale | 13,543,648 | 12,412,111 |
| Osceola | 16,189,856 | 19,586,501 |
| **NEVADA:** | | |
| Nev. Cons. | 84,800,000 | 90,735,287 |
| Mason Valley (d) | 13,638,000 | ........ |
| Cons. Cop. Mines (d) | 9,500,000 | 1,196,702 |
| Blue M. & S. | 7,787,000 | ........ |
| **NEW MEXICO:** | | |
| Chino | 83,800,000 | 72,349,508 |
| **MISCELLANEOUS:** | | |
| Kennecott | 80,668,000 | 108,372,785 |
| Tennessee | 8,000,000 | 9,404,295 |
| U. S. Smelt. | 21,400,000 | 28,888,093 |
| | | IMPORTS. |
| **CANADA:** | | |
| Granby | 37,934,526 | 44,702,164 |
| Canada Cop. (h) | 4,325,000 | 5,196,239 |
| Howe Sound | 18,000,000 | 16,288,835 |
| Canadian Cop. | 40,000,000 | 36,000,000 |
| **MEXICO:** | | |
| Greene-Can. (i) | 29,860,000 | 62,000,000 |
| **SOUTH AMERICA:** | | |
| Braden | 64,024,000 | 42,153,270 |
| Chile | 89,420,000 | 45,114,000 |
| Cerro de Pasco | 72,000,000 | 71,024,000 |

(a) Severely affected by strikes. (b) Properties establishing the Jerome Camp; progressing. (c) New producer; controlled by Calumet & Arizona. (d) Will be discussed later. (e) Steady progress noteworthy. (f) Suffered the record loss through strikes. (g) Utah and Anaconda are regarded as "leaders." (h) Feb. 2 issue. (i) Political disturbances.

The mill was taking care of 2,500 tons daily in 1915-1916; with additional units to be added, its capacity should now be around 3,000 tons daily. It is understood that future expansions are planned.

Ore reserves at the end of 1916 were estimated at 18,754,502 tons averaging 1.97% copper above the 1,200-foot level. There is a possibility that ore bodies in commercial quantities may eventually be encountered still lower; the continuity of the veins at greater depth has been partially demonstrated.

In 1916 the average recovery was around 90% and net cost of production 7.3c. a pound. The 1917 figures are not available, and we expect to see the cost increased to around 9c. a pound, which is not abnormal, considering the times.

The El Potosi property of 415 acres is located 18 miles from Chihuahua City, Mexico. Formerly producing silver-lead on a fairly large scale, the property is well rated, and paid dividends for some years. Although development work was done during 1916, and production shipped to the American Smelting plant at Chihuahua, the closing down of the smelter, and disturbed conditions generally, handicapped progress. Howe Sound bought the property for over $5,000,000, and unofficial estimates credit El Potosi with normal earning power of $1,000,000 a year.

### Production—Earnings

Production of the Britannia mine for 1916 was 16,288,835 pounds of copper, 791 ounces of gold, and 91,905 ounces of silver, valued at $6,042,538. The net balance was $1,574,860, or 80c. a share, after expending $1,000,000 for construction and equipment. The 1916 report makes no reference to earnings from the El Potosi property. Cash stood at $734,580, product in transit $478,401, and accounts receivable $194,366. Total assets were $12,702,834 and current assets $1,755,665. Current liabilities were $961,141, and profit and loss surplus $3,018,688. Table II should prove interesting.

Production for 1917 is unofficially estimated at around 18,000,000 lbs. of copper. How such production and relative increase compares with all other important companies will be seen on reference to Table III—this table should be preserved for future reference.

The shares have enjoyed a steady market on the New York Curb since 1915. Introduced around the low of 2½, they sold up to 9½ in the 1916 "boomlet." The average has been 4 to 5. The company is under the control of the Schley family, well known New York bankers. The recent death of Mr. Grant B. Schley, President of the company, removes the principal directing hand responsible for the company's development. To the Schley family is commonly attributed the absence of effort "to create a market." The management has watched the property more closely than the market, and is regarded as conservative and capable. We doubt whether its careful policy will be altered in the future.

### Conclusion

A prominent copper authority states, "its stock is a desirable investment and ranks high." The company controls an important North American copper property, and a promising silver mine in Mexico. On a portion of its copper holdings, positive ore reserves give the shares substantial intrinsic value, well above the prevailing market price around 4; even in a normal copper market. Indications favor a sizeable increase in reserves as development proceeds. Low cost of production is a favorable feature. A reasonably long life is assured for its copper property, while its silver mine will be a potential source of large revenue some day. Britannia mine is equipped for large production, and signs of progress may be expected in the forthcoming 1917 report, due in March. As a speculative investment, the shares are among the best in their class, and on this basis, are recommended for purchase. Their low price discounts many unfavorable factors, such as, an inopportune "buying time" for coppers, the remoteness of dividends, and economic conditions likely to affect the company, as well as the general market, in the near future.

(*To be continued.*)

**It is not asking too much of those who stay behind to set a new standard of national thrift.—*Willard V. King, President Columbia Trust Co., New York.***

# Mining Notes

*These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.*

**ALASKA GASTINEAU — Steel Mill Planned**—Plans starting work on the construction of an electrically operated steel mill on Puget Sound, near Seattle, by interests connected with the company, to cost about $25,000,000, of which $9,000,000 will be expended on the initial installation.

**ANACONDA — 1918 Likely to Break Records**—Despite 23½-cent copper, high costs and taxes, likely to make an excellent showing in 1918. It probably will earn $30,000,000, or $13 a share, after all charges and taxes, on a par with the 1917 estimate.

Now that operations have returned to normal, it is predicted that 1918 will break all production records. Assuming that there is no interference with output, Anaconda should turn out 350,000,000 lbs. of copper. Costs are high and might go higher, but estimating an average profit of only 7 cents a pound on this output would mean metal returns of $24,500,000.

January production was at the annual rate of 298,000,000 lbs. The 1917 smelter output was 255,627,792 lbs., compared with 331,893,273 lbs. in 1916.

The company was favored with good weather in December, when operations were brought up to normal levels, but the decrease in efficiency among the miners, estimated at 20%, was in the main responsible for the inability to get production above the 25,000,000 lb. mark.

Assuming that Anaconda would be called upon to pay $5,000,000 tax on $35,000,000 income, net profits of $30,000,000 applicable to the 2,331,250 shares in 1918 would be $11,350,000 in excess of the $8 dividend requirement.

**CERRO DE PASCO—Remaining 10-Year Bonds Called**—Has called for payment the remaining outstanding ten-year convertible 6 per cent bonds at 105 and interest, amounting to $3,473,000.

Company started 1918 with an excellent showing, January output being 6,798,000 lbs., or at the annual rate of about 81,600,000 lbs. Production in 1917 was 72,674,032 lbs., against 71,000,000 in 1916.

The January production was 490,000 lbs. in excess of December and 626,000 lbs. better than the 6,172,000 lbs. turned out in January, 1917. Furthermore, it came within 554,000 lbs. of October's high record production of 7,352,000 lbs.

Cerro officials are bending every effort to bring output up to the 90,000,000 lb. level in 1918.

**CON. COPPERMINES—Production, 12 Months**—1,450,000 lbs. in December brought the total for 1917 up to 9,600,000 pounds. This compares with 1,197,000 in 1916.

The Coppermines Co. produced 7,000,000 pounds of copper in the last six months of 1917. Company showed about 17 or 18 cents operating cost in the third quarter of 1917. For the final quarter costs may prove higher.

If Coppermines can produce 15,000,000 lbs. copper in 1918 at 17½c. cost, it would mean $900,000 operating profit before taxes, on 23½c. copper. Such earnings would exceed $1 per share on 806,205 shares issued, disregarding convertible bonds outstanding.

**GRANBY—Production, 1917, 35,846,388 Lbs.**—Production for 1917 totaled 35,846,388 lbs. This compares with 1916's total of 44,502,144 lbs. Total production for 1917 shows a decrease of 8,655,756 lbs. as compared with 1916, this was due entirely to the lessened output at Grand Forks. At the last annual meeting of stockholders it was emphasized by company officials that Grand Forks had passed the zenith of its productivity.

**GREENE CANANEA — Regular Dividend Indicates Prosperity**—Continuing the quarterly dividend of $2 a share indicates the prosperous condition of the company, despite serious labor troubles at the property in 1917 and resultant curtailed production.

Mine output of 30,260,000 lbs. in 1917, compared with 62,250,067 lbs. in 1916. In addition to war taxes in the United States, Greene Cananea also had to contend with taxes in Mexico.

Assuming there is no interference with operations over the rest of the year, Greene Cananea stands a good chance of producing in the neighborhood of 63,000,000 lbs. of copper. This would exceed 1916's high record output.

**HECLA—War Taxes Call for Large Payment**—In commenting on the action of the directors in passing the dividend the secretary of the company stated that the war excess profits tax law "in its present form will call for an extremely large payment by June 15, 1918, for taxes for the year 1917."

**JEROME VERDE — Report, Quarter Ended Dec. 31.**—Engineer Henderson reports: "1600 tons of ore mined. Shipments average 8.25%, and proceeds have paid a proportion of the development expenses. This ore body, which is on the main top claim, is 40 feet long and six to 20 feet wide. The ore remaining is not measurable, but probably several thousand tons more are available above the 900 level. This was mined under an agreement with United Verde Extension which terminated December 23, 1917. The ore body will be accessible through the Columbia shaft and our north drift, which will connect with the northwest workings in a few months.

**MAGMA — 1917 Net Before Taxes** — Company's report for 1917 should show net profits before taxes approximately $1,470,000, or $6 a share before war taxes. Net profits in 1916 were $1,097,333, or $4.57 per share.

Production totaled about 10,700,000 lbs., compared with 8,473,580 in 1916, and 6,046,459 in 1915.

**MIAMI—Production Improvement—**This company reported production in January, 1918, as 4,709,483 lbs. of copper, compared with 4,931,450 in December and 5,020,370 in January, 1917.

Made a good start for 1918 in January, although output was 221,967 lbs. under December, and within 639,517 lbs. of June, 1917, the high record month, when 5,349,000 lbs. were produced. January production 4,709,483 lbs. was at the annual rate of 56,513,796 lbs.

**MINERALS SEPARATION—Butte & Superior Case—**Hearing on the appeal of Butte & Superior from the judgment rendered against it in the lower court in favor of the Minerals Separation for alleged infringement of the flotation process, has been brought forward from March 8 to February 20, at San Francisco.

**MOHAWK—Labor Shortage Affected 1917 Operations—**Labor shortage had a marked and costly effect on operations during 1917, as indicated in the smallest copper output since 1914. The average recovery was 20.35 lbs. per ton against 20.81 in the preceding 12 months.

The 1917 rock tonnage was 605,202 against 664,547 tons and 829,789 tons, respectively, in 1916 and 1915. With its approximate output in 1917 of 12,100,000 lbs., Mohawk should have earned just about the $16 a share it paid in dividends, leaving its excess profits tax to be paid from its treasury. On Dec. 31, 1916, net surplus amounted to $2,333,839, or more than $23 a share. From such a surplus the amounts required to pay its excess profits tax readily can be spared.

**NORTH BUTTE—1917 Production Estimated—**It has been estimated that this company's 1917 production will be 14,583,347 lbs. of copper, 1,222,482 lbs. of zinc, 671,159 ounces of silver, and 961 ounces of gold.

**QUINCY—New Ground Explored—**Company not only is prosecuting operations on the main lode of the Pewabic series, which has paid the shareholders dividends for upward of 60 years, but is exploring a parcel of new ground to the south, in the vicinity of Hancock lands, where several offshoots of the Pewabic have been opened up, in good values, by the Hancock Consolidated.

The Quincy management feels assured that it will have another good mine in this field.

**SILVER KING CONSOLIDATED—Capital Increase—**A special stockholders' meeting has been called to increase the capital stock from $700,000 to $1,000,000, owing to the reported purchase of California-Comstock.

**TENNESSEE COPPER—Better Contract Arranged—**Adjustment of the sulphuric acid contract between company and the International Agricultural has been arranged under which Tennessee will receive considerably larger profits from its sales of acid to the fertilizer company.

Under the readjustment International will take the copper company's entire output, running at the rate of nearly 300,000 tons a year, but will pay a substantially advanced price for all deliveries over 225,000 tons annually. The effect on Tennessee Copper's earnings will be material.

Tennessee earnings for 1917 have been estimated at around $6 a share, or $3 a share on the stock of the Tennessee Copper & Chemical Co., which owns practically all Tennessee Copper stock. Under the contract now in effect, and with the larger production, earnings in 1918 should be considerably better.

**UNITED VERDE—January Dividend Omitted—**For the first time in over two years United Verde omitted to pay a monthly dividend to stockholders.

While not officially designated as such, the company has paid 29 consecutive monthly dividends of 75 cents a share, with 17 "extras" of like amount. The last distribution was $1.50 in December, making 1917 total paid to stockholders $17.50 a share.

Production record was set up in 1917 with an output of 70,000,000 lbs. of copper, an increase of 11,000,000 lbs. over 1916. Interpretation of the tax law seems to indicate United Verde will have to pay a heavy toll on account of its comparatively low invested capital account.

**UNITED VERDE EXTENSION—1917 Production 60,000,000 Lbs.—**Produced over 60,000,000 lbs. of copper in 1917. It is stated the company will be unable to have the new smeltery completed by March, owing to delay in the arrival of the machinery.

**UTAH—Production for 1918—**Officials look for production figures to break all records in 1918. It is estimated that total output will approximate 250,000,000 lbs., assuming that there is no interference with operations. This would be about 44,600,000 better than 1917.

Mine production in 1918 likely will approximate 20,000,000 lbs. a month, or 240,000,000 lbs. for the year. In addition, something like 10,000,000 lbs. is expected from the leachings of tailings. This plant will handle 4,000 tons daily when running at capacity.

**WOLVERINE—Earned $10 in 1917—**Production for the calendar year 1917 was around 5,150,000 lbs. of copper, somewhat smaller than had been anticipated. On this volume of output the company must have earned between $10 and $11 per share. As dividends of $7 in April and $6 in October were paid, a material reduction in the rate is to be expected when the directors meet for action in March.

With copper selling at 23½ cents Wolverine ought to be able to earn $6 or $7 a share annually over and above excess profits tax requirements. The company undoubtedly has at least eight years of productive life remaining, and, as stated seven months ago, it had more than $18 of cash and quick assets on hand for each share of stock outstanding.

# UNLISTED SECURITIES

## Eastman Kodak's Prosperity

### An Unbroken Record—Phenomenal Earnings—Position of Pending Litigation

By WILLIAM T. CONNORS

EASTMAN Kodak is a company which has fairly wallowed in prosperity. Amateur photography has become so popular, and the folding camera is now such an essential part of the equipment of every tourist and vacation-seeker, that it has merely been necessary to supply the demand.

This company, through being early in the field and through its extensive and skillful advertising, has obtained a very large part of the available business of this kind all over the world—in fact so large a part that its competitors are constantly charging it with monopoly.

Back in 1907, earnings on the preferred stock were over 100 per cent. and on the common stock 24 per cent. This looks like a reasonable degree of prosperity, but that record has been entirely thrown in the shade by later results. In 1916, 280 per cent. was earned on the preferred stock and 86 per cent. on the common. Dividends, which in 1907 were 20 per cent., were 70 per cent. in 1916—10 per cent. regular and 60 per cent. extra.

The 1917 report is not yet available, but during that year only 50 per cent. dividends were paid on the common stock, which may perhaps indicate that profits for the year were not equal to those of 1916.

It is probable that the demand for kodaks has been considerably reduced by the war. More than 90 per cent. of the sales of photographic equipment would have to be classed as luxuries, and war economy since this country entered into the contest has undoubtedly operated to reduce purchases of this character. Inventories are relatively small in a business of this nature, but of course they have not escaped a considerable increase as a result of high prices of materials. The item of "merchandise, materials and supplies," which was $10,117,000 in 1914, had risen to $16,760,000 in 1916, and it is entirely probable that the forthcoming report for 1917 will show a still larger figure.

However, a company which can pay 50 per cent. dividends on its common stock in one year and still have a liberal surplus left, can hardly be said to be suffering adversity. It has been the invariable policy of this company to keep dividend payments well inside of profits, and undoubtedly the report will show a considerable surplus earned above the 50 per cent. dividends paid.

**Eastman Kodak—1916 Balance Sheet**

| | |
|---|---|
| *Assets* | |
| Real estate, etc. | $16,776,047 |
| Welfare fund assets | 1,056,548 |
| Insurance, etc., reserve | 369,210 |
| Merchandise | 16,760,084 |
| Accounts and bills receivable | 4,875,912 |
| Securities | 5,298,515 |
| Cash | 10,448,846 |
| Total | $55,585,161 |
| *Liabilities* | |
| Preferred stock | $6,165,700 |
| Common stock | 19,538,400 |
| Welfare reserve | 1,056,548 |
| Other reserves | 1,684,298 |
| Profit and loss surplus | 18,670,918 |
| Accounts payable | 3,980,672 |
| Dividends unpaid | 4,488,625 |
| Total | $55,585,161 |

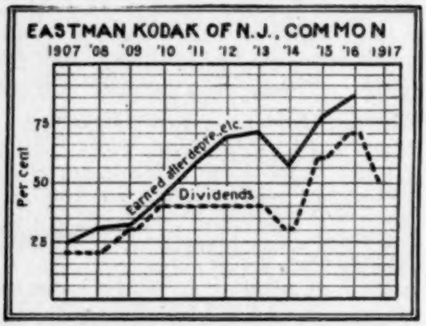
#### Good Will and Patents Charged Off

Down to 1913, the assets of the company as shown in the balance sheet lumped real estate, buildings, good will, patents, etc., in a single item, which in that year was $34,983,000. But in 1914, a profit and loss surplus of $27,572,000 having accumulated, the sum of $15,798,000 was deducted from the surplus to offset goodwill

and patents. Consequently in later balance sheets no value has been assigned to good will and patents, although it is obvious that they must be extremely valuable. Real estate, buildings, etc., were placed at $16,776,000 in 1916, which represents cost less adequate charges for depreciation.

The company always keeps a liberal working capital on hand. In 1916, this was $28,914,000, which compares with less than half that amount no longer ago than 1910.

This company was incorporated in 1901, acquiring the entire capital stocks of the Eastman Kodak Co. and the General Aristo Company, both of Rochester, N. Y. There are branch companies, all including the name Kodak, in London, Paris and




Berlin. The war has necessarily interfered seriously with the company's European business, and in view of that fact it is indeed remarkable that such a tremendous increase in the total was recorded in 1915 and 1916.

At a later date, Eastman Kodak also acquired the Rochester Optical & Camera Co., and the M. A. Seed Dry Plate Co. of St. Louis. Still later, in 1909, the property of the Artura Photo Paper Co. of Columbus, Ohio, was purchased and in 1914 the plants of the Eastern Chemical Works, of Elmwood, Conn., were acquired.

### Pending Litigation

In 1915, the United States District Court held that the Eastman Kodak Company was a monopoly in restraint of trade. The company appealed this decision to the United States Supreme Court, in the meantime agreeing not to extend its alleged monopoly and to "discontinue any unlawful practices." This appeal has not yet come to trial, and the Government has recently announced that this suit, among others, will be suspended during the period of the war. In the meantime there has been no substantial check to the enlargement of the company's business. In fact, plans are now being prepared for a new five-story reinforced concrete building, costing $500,000.

The company has had considerable other litigation. In 1916, a settlement was arranged with the Hall Camera Company in a damage suit under the Sherman Law for $750,000. In March, 1917, a damage suit for $924,000 under the Sherman Law was filed by G. C. Gennert, an importer of photographic supplies. In November, 1917, another suit by the United States Aristotip Company was brought alleging the attempt to establish a mononoly of the sale of photographic print papers.

In the main the company has been successful in avoiding serious losses through litigation. Its business has been so large and so profitable that the cost of litigation has been a minor item.

The stocks of this company are inactive, although listed on the New York Stock Exchange. The price of the common has recently been about 450 bid, and it is evident that the current dividends make it attractive even at this level. It would be a very difficult matter to buy any considerable amount of this stock.

### Outlook

The general outlook for the company appears to be unusually free from difficulties. It is so strongly intrenched in its field that it is able to meet competition on better than equal terms. Even if the government, after the war, should decide to push the anti-trust suit against this company, it does not seem probable that stockholders would be seriously injured, even if the decision should be adverse. The result of the subdivision of the Tobacco Trust is well known, and the Kodak industry would be likely to suffer even less as a result of division into several separate companies.

# Gradual Growth of Otis Elevator

## A Consistent Record—War Orders—Sharp Rise in Inventories and Payables

By ERNEST P. WILLIAMS

OTIS Elevator has been doing a gradually increasing business since it was incorporated in 1898, when it acquired the property and good will of a number of other companies engaged in the manufacture and sale of elevators.

As will be noted from the graph herewith showing earnings and dividends on the common stock, the company's business has fluctuated with changes in the condition of general trade throughout the country, but so far as the internal conditions of the company are concerned, its growth has been comparatively slow but apparently stable.

Dividends began on the common in 1903 at the rate of 2 per cent. In 1906 this was increased to 3 per cent., in 1910 to 4 per cent., and in 1913 to 5 per cent., where the rate still stands. The preferred stock has paid 6 per cent. since 1899. Earnings have shown throughout a very satisfactory margin above dividends. This record in itself shows the conservative character of the management and the healthy growth of the business.

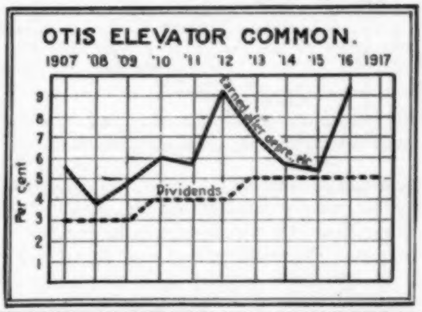
### War Orders for Otis

The entry of the United States into the war caused a drop in the regular business of the company due to a decline in building operations everywhere, but it also caused the placing of some orders for freight and service elevators in lines of work connected with the war.

Last December Wall Street was temporarily electrified by the report that the Government had placed an order with Otis amounting to $70,000,000, on which the profit would be $10,500,000 or about 104 per cent. on the company's stock. But by the time the statisticians got their pencils sharpened and began to distribute this order around to the company's plants—at Chicago, Buffalo, Yonkers, Philadelphia, Harrison, N. J., and Quincy, Ills.—it was discovered that a misplaced decimal point had raised the order from $7,000,000 to $70,000,000.

The work is to be done on a cost-plus basis and will net the company not over $1,000,000—probably somewhat less. This, however, is a nice windfall, amounting to perhaps 9 per cent. on the stock.

The 1917 report has not been given out yet. President W. D. Baldwin vouchsafes the information that earnings for the year will be "satisfactory" and that unusual activity on Government orders will be the feature of 1918. On the basis of present information it is probable that the 1917 and 1918 earnings will not fall far short of 1916, when 9.4 per cent. was earned after




depreciation, and there is a possibility that they might even exceed that figure.

The Government work to be done is understood to be principally on recoil chambers. Similar orders, in still larger amounts, have been taken by Dodge Bros. of Detroit and by the Midvale Steel Co. Otis is well equipped for this class of work, and it seems probable that its facilities will be required by the Government for the most part while the war lasts.

### Jump in Inventories and in Payables

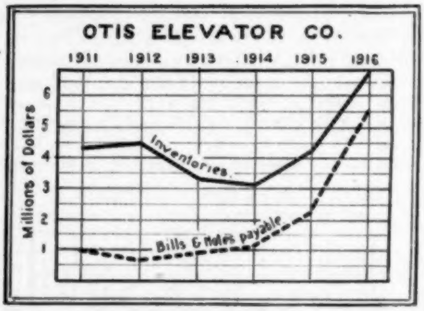
When we turn to the company's balance sheet, the striking feature is the increase in inventories and in bills and notes payable. The one is, of course, in large part the cause of the other, and they are shown together on the accompanying graph.

The great rise in inventories is by no means peculiar to Otis. All industrial companies are having a similar experience, as a

result of the high prices for all materials. With prices doubled, why shouldn't inventories double? If they didn't the company couldn't be doing much business.

But bills and notes payable jumped from $650,000 in 1912 and $1,150,000 in 1914 to $5,512,500 Dec. 31, 1916, and it is not improbable that they will be found to have been higher still at the end of 1917. Accounts payable also increased, but accounts receivable gained along with them, so that the situation is balanced in that particular.

The management is evidently proceeding




on the assumption that it can well afford to borrow money against its big inventories, rather than cut the dividends to the stockholders. That assumption may be all right. It is certainly natural that the company should wish to keep up its even dividend record, and having done a very profitable business in 1916 should hesitate to take the dividend-money to carry its inventories with. At the same time it must be said that this is the least conservative point in an almost uniformly conservative record.

This would not be considered borrowing money to pay dividends with, for the money was evidently borrowed to carry the inventories. Yet, as a matter of fact, the company did borrow money at the same time that it was paying money out as dividends. It is a perfectly common corporation practice and within limits it is quite defensible. But suppose inventories go on increasing—how far should this plan be carried?

Cash on hand, in the meantime, has not risen at the same rate. At the end of 1916 it was $898,000 against $675,000 in 1912.

### Outlook for the Stock

With a property account of $14,984,000 at the end of 1916, the company had outstanding $3,200,000 debenture bonds (which are being reduced at the rate of $100,000 a year), $6,500,000 6 per cent. preferred stock, and $6,371,000 common stock. Net working capital—or excess of current assets over current liabilities—was $5,195,000, equal to about $81 a share on the common stock.

The stock is unlisted and has a narrow and uncertain market. It is now quoted somewhat below 50, with about $5 spread between the bid and asked prices. It has every appearance of being worth the money. But it is purely an inactive investment issue, with little speculative attraction. Many stocks of that class have been on the bargain counter recently.

# Under the Microscope

## A Critical Analysis of New Security Offerings

By "MAGWALL"

**[The purpose of this new department is to analyze, weigh and classify offerings of new securities, without fear or favor, and also without malice or prejudice. It would be easy to stigmatize most new securities as "unseasoned," or as "having doubtful prospects," or as "highly speculative," and in possibly nine cases out of ten the critic might turn out to be right. He might, in fact, build quite a reputation by this simple and easy method.**

**Every new project has doubtful prospects and its stock is almost always highly speculative. Bell Telephone—usually placed in the forefront of the stage setting laid out by the dishonest promoter—had extremely doubtful prospects at the start and was about as highly speculative as a stock well could be.**

**The purchaser of securities of a new enterprise is taking chances. There is nothing wrong about that if the nature of the proposition is truthfully explained to him, if the securities are offered on a reasonable basis, and if the management makes an honest effort for success. The promoter who has done all that and has nevertheless failed because of conditions which could not have been foreseen, should not be censured. His next effort should be given the same impartial examination as his previous one.**

**This department will be conducted by "Magwall." Besides many years of work in Wall Street, he has had experience with two of the best known public accounting firms and has been associated with several business and financial enterprises in different parts of the country.**

**Magwall will tell the facts as he sees them. Investments which are investments will be called such and speculations and mere gambles properly tagged—no matter what the promoter calls them. Magwall claims sincerity, but not omniscience. If he makes mistakes he will be glad to have them pointed out and if convinced of error will gladly make correction.**

**As a part of this department Magwall will give each time a "Little Lesson in Promotion Finance," which a purchaser of stocks cannot afford to miss.—EDITOR.]**

### Little Lessons in Promotion Finance

#### I—Where the Money Goes.

A WHILE ago the Michigan authorities limited the commission on an automobile stock promotion to 10%. Let me surprise you—10% isn't enough for handling a new venture of this kind. I know of one firm which financed a new motor truck corporation. Purchasers of the stock were and are given a fair run for their money. The sales campaign, while necessarily enthusiastic, was well handled. Financial requirements were met from stock sales and the trucks are today manufactured in quantity in an adequate factory owned in fee. Yet the promoting firm did not make a reasonable net profit, though it received 25% of the proceeds of the stock sales.

But take another automobile proposition. It was proved that the individual disposing of the stock paid in notes, not cash, $1.70 for stock sold for $7 per share. The public put over $1,000,000 into the stock, but the corporation did not receive enough real money to start commercial operations before a receiver had to be called in. Admittedly this is an extreme case. However, there are important firms which are known among analysts as "sixty-five per cent. houses," this percentage being their usual requirement.

Reasonable remuneration depends upon the nature of the promotion, but the outside figure cannot be over about 30%, with the average much less.

We know about what the underwriters of Bethlehem preferred paid for their stock, and what part of the proceeds of the new Westinghouse notes reached the Westinghouse treasury. When analysis of balance sheets will not divulge the information I have found a good part of the high grade investment houses quite willing to tell me confidentially (and their word is good) exactly what they have paid for their offerings on bonds.

### Empire Tire and Rubber Company

The present stocks represent the recapitalization of a business established in 1887. Not a very new proposition one might say. However, as Messrs. Andrews & Company, who offer the new stocks, give no figures as to past earnings or as to the earlier financial position of the company, it must be considered analytically as new.

It was recently stated that the company is signed up for months in advance and was

working 1,500 men in three shifts. The capacity of the plant was claimed to be 1,500 tires and 1,800 inner tubes a day, besides mechanical rubber goods of all kinds. Sales for 1916 were not given but were said to have increased the first half of 1917 nearly 95% over the corresponding months of 1916, and an increase of output to 2,500 tires a day was necessary.

Empire now has $1,500,000 of 8% cumulative preferred stock of $100 par. It is convertible into common at par, ten shares of common for one of preferred. Of the $10 par common, $3,000,000 is outstanding and an amount equal to the preferred held for possible conversion.

At last report Messrs. Andrews & Company were offering the preferred at par, but the net price was really 93, as a whole year's dividends were attached. The common was sold at $8.

The most recent balance sheet I have seen is of October 1, 1917. It bears no public accountant's certificate, but it is not necessary to be skeptical about most of the actual figures to come to definite conclusions.

Accounts receivable stood at $671,195.58. As I have no earlier balance sheets, I can't tell whether this amount represents mercantile accounts, or whether at least part is for securities sold. I'll consider the former the case, and that the accounts are good. Notes receivable were $11,245.61, cash $148,008.24, and "investments" $7,406.59, making a total of working assets of $1,997,027.42.

The quick liabilities were notes payable of $865,000 and accounts payable of $253,512, a total of $1,118,512. The experience of the Rumely Company, among others, shows how vain it is sometimes to depend upon inventories as quickly convertible. It appears, then, that Empire was in none too strong a current asset position on October 1. In fact, considering, as conservative analysts do, that inventories are not current, but working assets, Empire showed a floating debt of sizable proportions after selling millions of dollars of securities.

The Good Will item stood at $2,906,621.60. Credit must be given Messrs. Andrews & Company for making this plain, though it is not plain that the firm shows a balance sheet to each Empire security prospect! It would have been so easy to have included the Good Will with the plant account. The segregation of the accounts makes possible a comparison of the Good Will account of $2,906,621.60 with the $3,000,000 common stock. It is plain that the common stock is water except as earnings are conserved.

However, the preferred stock is offered with a whole year's dividends attached, as above stated. Dividends declared are actual liabilities, and a year's preferred dividends amount to $120,000. This amount is not referred to the balance sheet.

Now as to earnings. Though the company has been in operation since 1887, I have no earnings except for the nine months ended September 29, 1917, of $316,492.78 and for October of $25,126.29. Net for the twelve months of 1917 was estimated at $450,000. The statement at hand does not show whether the amount is after excess profits tax or not—a most important consideration. I'll take the estimated figure of $450,000 for the year as "after taxes." Subtracting $120,000 for preferred dividends, the balance for $3,000,000 of common is just 11% on the common.

This wouldn't be bad perhaps in ordinary times and if reinforced by a stable record covering several years. But don't forget that the common stock that has been offered at $8 is on a par of $10, or $80 if figured on $100 par. Eighty is just about what Woolworth common came out at years ago. Woolworth common was all water too, but it showed a consistently increasing earning record, covering five years, of the corporations merged into the present Woolworth. One of these years was 1908, a terrible year for most corporations.

For around 60 you can buy Northern States Power common, a 7% dividend payer, showing consistent and increasing earnings, now running about 15%. Empire Tire common looks very thin even at $8 as the speculation it is. How much less than $8 did the Empire Tire & Rubber Company receive per share?

Just a word about the preferred. It is barely covered by assets. Earnings have been available for about a year of the company's 32 years of existence. Figuring it net at 93 it is selling to yield but a bit more than Bethlehem Steel convertible preferred. Is further comment necessary?

# Unlisted Security Notes

***These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.***

**AETNA—Liabilities Reduced**—Of the $4,608,475 current liabilities on April 19, 1917, there remains but $1,500,000, all of which is due to mercantile creditors. Just before the close of 1917 the receivers paid off the last of the bank loans and notes remaining from the old management. These consisted of $833,000 in loans held by Boston banks and $250,000 in notes held by individuals. All these obligations, which have been met by the receivers, amounting to over $3,100,000, were paid out of earnings of the company since the receivers took charge.

**AMERICAN BRASS—Earned $47.39**—Report, year ended Dec. 31, 1917, shows: Net profits $7,109,177, against $10,991,669, and surplus $434,177, against $7,241,669 for 1916. Dividends were $6,675,000 in 1917, against $3,750,000 in 1916. Net profits $7,109,177 for the year are equal to $47.39 a share, against $72.66 in 1916 and $40.85 in 1915. Balance sheet, as of Dec. 31, 1917, shows a profit and loss surplus of $20,453,851 compared with $20,019,674 Dec. 31, 1916.

This company, the largest consumer of copper in the United States, has but 150,000 shares of common stock and no bonds.

The excess of quick assets over current liabilities is equal to $160 per share—a showing which has few parallels in corporate finance.

The allowance of $5,000,000 for taxes would indicate that the directors expect the company will be called upon to make a liberal contribution to the national war chest. This sum is equal to 33⅓% on the capital stock and is over 40% of the 1917 profits. The percentage on the actual invested capital is much less, as on December 31 total assets, less $1,705,693 of accounts payable, were $44,400,000.

With a profit and loss surplus of $20,453,851 at the close of the year, the way would seem to be clear for the declaration of another stock dividend.

**CHEVROLET—Sales Show 94% Increase**—Report sales the year ended Dec. 31, 1917, as 94% greater than for 1916. The company sold in 1917 125,004 cars of a cash value of $62,638,303, compared with 69,522 in 1916, or a value of $32,306,295.

**Du PONT de NEMOURS—Government Contract**—Contracts are signed by the War Department for the construction of two smokeless powder plants, which will each employ from 10,000 to 15,000 men, and together will cost approximately $100,000,000. The estimated capacity of each plant will be 500,000 lbs. daily.

Company will construct and put into operation the Nashville plant. After this begins to operate smoothly it will be turned over to the Government. Company will receive a nominal fee for its services.

**FEDERAL DYESTUFFS—Plan for Operation**—The chairman of a committee of noteholders has arranged with a syndicate to submit a plan of operating the company's plant, which guarantees the payment of the 6% notes, the receivers' fee and all other outstanding indebtedness. The syndicate was formed by the Curtis & Harvey Co. of Canada, of which Col. J. J. Riley of Montreal is the leading interest. This company, which suffered the loss of a plant in Canada through an explosion, has a complete organization and will provide $500,000 for working capital. The syndicate asks an extension of five years on the 6% notes and guarantees to pay off $200,000 of hem every year beginning Dec. 1, 1918. It also asks that 51% of the common stock be placed in escrow until the debts of the company have been paid and working capital provided when the stock will be owned by the syndicate.

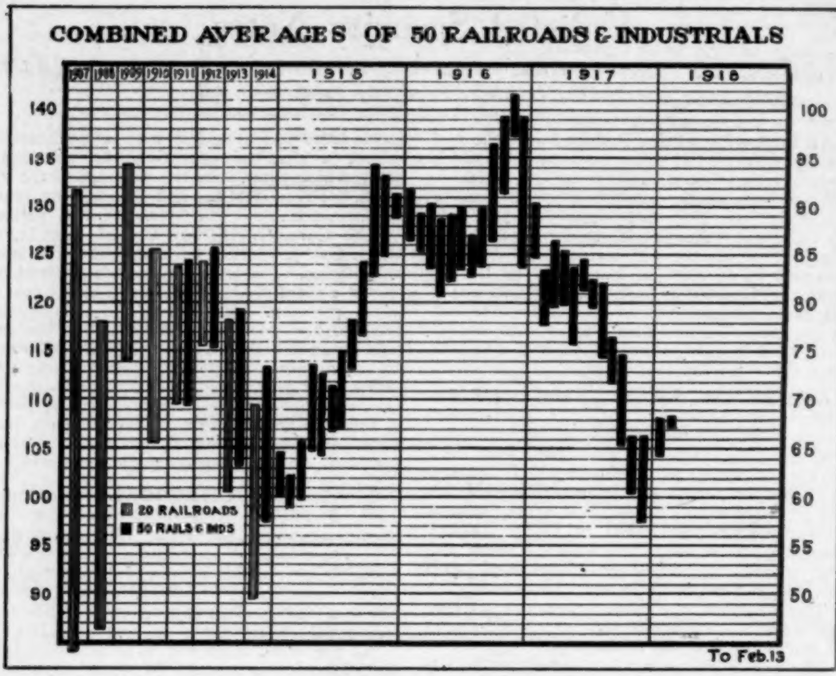
**GRASSELLI CHEMICAL — Statement, 1917, $4,340,062 Net.**—Statement for 1917 shows a falling off from 1916 in earnings Net applicable to dividends, after allowing $700,000 for possible income and excess profits, taxes, amounted to $4,340,062 for the preferred stock, a falling off of $5,594,938, or 56.3% compared with 1916.

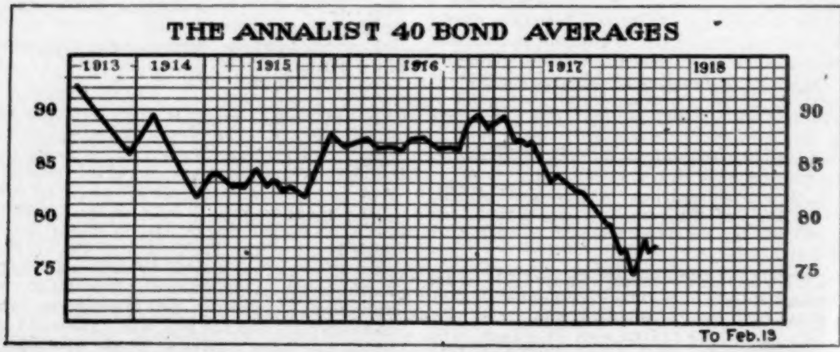
As preferred stock for 1917 would use but $193,500 of this amount $4,146,562 is left for common unless company makes allowance for depreciation before considering disbursements on the common.

Not figuring on depreciation, this would show earnings 26.93% on the common, as compared with 64.34% in 1916.

**NATIONAL SUGAR REFINING—1917 Profits Equal Five Years Earnings**—Company in 1917 earned more than in five or six ordinary years. It is understood profits in 1917 were between $5,000,000 and $6,000,000, a sum equal to 50% to 60% on its $10,000,000 stock. National Sugar has no bonds and its stock is all of one class. Up to 1913 51% of the pfd. stock was owned by American Sugar. As the result of litigation the $10,000,000 common stock owned by the Havemeyer estate was cancelled and the pfd. was exchanged into common. Later American Sugar sold half of its $5,100,000 stock, offering this half to its own stockholders. National Sugar, in slight keeping with its earnings, has increased its dividend rate from a 6% to a 7%-basis. It is understood that book surplus amounts to $75 per share.

**WHITE ENGINEERING—Contract for Hydro-Electric Plant**—Great activities are in progress at Muscle Shoals, near Florence, Ala., in preparation for the construction of the $13,500,000 hydro-electric plant recently announced as to generate electricity for operating the $30,000,000 ammonium nitrates plant which the Government is building. The War Department will build the hydro-electric station, and the contract for it has been awarded to this company.




## MARKET STATISTICS

| | | 40 Bonds | Dow Jones Avgs. 20 Inds. | Dow Jones Avgs. 20 Rails | 50 Stocks High | 50 Stocks Low | Total Sales | Breadth (No. issues) |
|---|---|---|---|---|---|---|---|---|
| Monday, | Jan. 28... | FUEL HOLIDAY. | | | | | | |
| Tuesday, | " 29... | 77.09 | 77.13 | 79.63 | 67.61 | 66.66 | 448,100 | 200 |
| Wednesday, | " 30... | 77.29 | 76.98 | 79.36 | 67.38 | 66.21 | 426,100 | 201 |
| Thursday, | " 31... | 77.43 | 79.80 | 81.03 | 69.09 | 67.20 | 885,800 | 229 |
| Friday, | Feb. 1... | 77.25 | 79.28 | 80.92 | 69.48 | 68.30 | 958,100 | 228 |
| Saturday, | " 2... | 77.28 | 79.77 | 81.03 | 68.84 | 68.30 | 330,300 | 180 |
| Monday, | " 4... | FUEL HOLIDAY. | | | | | | |
| Tuesday, | " 5... | 77.31 | 79.28 | 80.59 | 68.84 | 67.94 | 521,500 | 194 |
| Wednesday, | " 6... | 77.29 | 78.93 | 79.98 | 68.61 | 67.97 | 519,500 | 188 |
| Thursday, | " 7... | 77.15 | 77.78 | 79.33 | 68.10 | 67.19 | 607,300 | 187 |
| Friday, | " 8... | 77.19 | 78.44 | 79.34 | 68.32 | 67.50 | 462,787 | 180 |
| Saturday, | " 9... | 77.18 | 78.98 | 79.38 | 68.29 | 68.01 | 212,450 | 134 |